

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### **MBNA CORP**

CIK: **870517** | IRS No.: **521713008** | State of Incorporation: **MD** | Fiscal Year End: **1231**  
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SIC: **6021** National commercial banks

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2003

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10683

**MBNA Corporation**

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

52-1713008  
(I.R.S. Employer Identification No.)

1100 North King Street Wilmington, DE  
(Address of principal executive offices)

19884-0131  
(Zip Code)

Registrant's telephone number, including area code: (800) 362-6255

**Securities Registered Pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange
7 1/2% Cumulative Preferred Stock, Series A	New York Stock Exchange
Adjustable Rate Cumulative Preferred Stock, Series B	New York Stock Exchange
MBNA Capital A 8.278% Capital Securities, Series A, guaranteed by MBNA Corporation to the extent described therein	New York Stock Exchange
MBNA Capital B Floating Rate Capital Securities, Series B, guaranteed by MBNA Corporation to the extent described therein	New York Stock Exchange
MBNA Capital C 8.25% Trust Originated Preferred Securities, Series C, guaranteed by MBNA Corporation to the extent described therein	New York Stock Exchange

MBNA Capital D 8.125% Trust Originated Preferred Securities, Series D,  
guaranteed by MBNA Corporation to the extent described therein  
MBNA Capital E 8.10% Trust Originated Preferred Securities, Series E,  
guaranteed by MBNA Corporation to the extent described therein

New York Stock Exchange

New York Stock Exchange

**Securities Registered Pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark, whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

As of June 30, 2003, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant calculated by reference to the closing price of the Registrant's common stock as reported on the New York Stock Exchange was \$22,521,573,244. As of March 1, 2004, there were outstanding 1,277,671,875 shares of common stock, par value \$.01 per share, which is the only class of the Registrant's common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the 2003 Annual Report to Stockholders for the year ended December 31, 2003 are incorporated by reference into Parts I, II, and IV. Portions of the Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 3, 2004 ("Definitive Proxy Statement") are incorporated by reference into Parts II and III.

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**MBNA CORPORATION**

**2003 ANNUAL REPORT ON FORM 10-K**

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## PART I

### ITEM 1. BUSINESS

#### Overview

MBNA Corporation (the “Corporation”), a registered bank holding company, was incorporated under the laws of Maryland on December 6, 1990. It is the parent company of MBNA America Bank, N.A. (the “Bank”), a national bank organized in January 1991 as the successor to a national bank formed in 1982 and the Corporation’s principal subsidiary. The Bank has two wholly owned foreign bank subsidiaries, MBNA Europe Bank Limited (“MBNA Europe”) formed in 1993 with its headquarters in the U.K. and MBNA Canada Bank (“MBNA Canada”) formed in 1997. Through the Bank, the Corporation is the largest independent credit card lender in the world and is the leading issuer of endorsed credit cards, marketed primarily to members of associations and customers of financial institutions and other organizations. In addition to its credit card lending, the Corporation makes other consumer loans, including installment and revolving unsecured loan products, and offers insurance and deposit products. The Corporation is the parent of MBNA America (Delaware), N.A. (“MBNA Delaware”), a national bank that offers mortgage loans, aircraft loans and business loan products.

The Corporation conducts its business in Europe through MBNA Europe and in Canada through MBNA Canada using substantially the same business strategy and operating methods in its international activities as it does in the U.S., with adjustments for local regulation and custom.

#### Products and Services

##### *Credit Cards*

The Corporation offers standard, gold, and *Platinum Plus* personal and business credit cards and customizes them for thousands of endorsed affinity programs and for programs under its own brand name. In addition, the Corporation offers Customers even more customized, high-end credit card products such as the *Quantum* card. The Corporation’s card programs offer a variety of benefits and features based on the type of endorsing organization and need of the Customer. These benefits and features include competitive interest rates, group-specific enhancements, rewards (including the *World Points* rewards program), and compensation to the endorsing organization based on the cardholder’s usage. The Corporation’s approach to marketing and underwriting enables it to offer higher initial credit lines to applicants and periodic credit-line increases to existing Customers, resulting in higher usage and average account balances.

The Corporation’s credit cards are currently offered under either the MasterCard or Visa brand name and network. MasterCard and Visa offer the Corporation account generation and transaction volume incentives in order to promote their respective brands. In addition, in connection with the Corporation’s co-branding arrangements, MasterCard and Visa enter into endorsing arrangements with certain of the Corporation’s co-branding partners. See discussion of co-branding under “Marketing” on pages 2 through 4 below. In January 2004, the Corporation entered into an agreement with American Express to offer its credit cards under the American Express brand and network and intends to begin offering American Express branded cards upon satisfaction of certain conditions contained in the agreement.

##### *Other Consumer Loans*



The Corporation's other consumer loan products include unsecured lines of credit accessed by check or electronically with either fixed monthly payments or minimum payments similar to credit card accounts. Customers use these products primarily for large purchases or consolidation of other consumer debt. The Corporation markets these products to its existing credit card Customers and to others. In the U.S., the Corporation also offers sales finance accounts, which are unsecured lines of credit marketed to customers of a

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limited number of retailers and service providers and include instant financing offered at retail points of sale. In 2003, the Corporation began placing less emphasis on the marketing of sales finance accounts. Through MBNA Europe, the Corporation also offers fixed term unsecured loan products with fixed monthly payments.

The Corporation offers specialty finance products, including mortgage and aircraft loans, to consumers in the U.S. through MBNA Delaware and unsecured lines of credit to small businesses through the Bank. The Corporation's mortgage loans primarily consist of home equity loans offered as a debt consolidation tool. The mortgage loans also include purchase money and refinance loans. The Corporation's mortgage loans are offered primarily to the Corporation's credit card and other consumer loan Customers. The Corporation originates and then sells the mortgage loans to third parties. The Corporation does not service any mortgage loans.

### *Deposits*

In the U.S., the Corporation offers money market deposit accounts and certificates of deposit through the Bank. Money market deposit accounts provide Customers with liquidity and convenience of service, as well as insurance up to \$100,000 per depositor by the Federal Deposit Insurance Corporation ("FDIC"). Certificates of deposit are traditional fixed term investments with maturities that typically range from six to sixty months, and are insured by the FDIC up to \$100,000. Deposit products are offered to members of the Corporation's endorsing associations, to existing credit card Customers and to others.

### *Business Lending Products*

The Corporation offers business lending products in the U.S. (through MBNA Delaware), the U.K., and Canada. The Corporation's business lending products include general purpose business credit cards marketed primarily to small businesses, and purchasing and corporate cards for small and larger businesses for business, travel and corporate purchasing.

### *Insurance*

The Corporation offers credit protection products to credit card and other consumer loan Customers of the Bank, and markets credit insurance to Customers of MBNA Europe and MBNA Canada. In addition, the Corporation markets credit-related life and disability insurance to Customers whose accounts have been acquired from other lenders. These insurance and credit protection products are marketed only to the Corporation's loan Customers, and only in conjunction with their loan accounts with the Corporation and not any other loan accounts. A third-party vendor manages aspects of the sale, retention and administration of certain of these products. Customer acceptance of these products generally has been higher in the U.K. than in the U.S. and, as a result, these products have accounted for a higher proportion of U.K. revenue than U.S. revenue.

### *Insurance Finance*

In January 2004, MBNA Europe acquired Premium Credit Limited, an independent premium finance company in the U.K. Premium Credit makes loans to businesses, including professionals and small business owners, to pay premiums on property, general liability, and other types of insurance. Premium Credit also provides loans to retail consumers for financing of premiums on insurance products. Premium Credit generates these loans through its relationships with a network of insurance companies, agents, and brokers. At year-end 2003, Premium Credit had £814 million (approximately \$1.5 billion) in outstanding loans.

## **Marketing**

The Corporation markets its products primarily through endorsements from associations, financial institutions, commercial firms, and others. The Corporation directs its marketing efforts primarily to members and customers of these endorsing organizations, and to targeted lists of people with a strong common interest. The Corporation is the recognized leader in endorsed marketing, with endorsements from thousands of

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organizations and businesses, including professional associations, financial institutions, colleges and universities, sports teams, and major retailers.

The Corporation generally customizes marketing programs for an endorsing organization in order to attract the organization's members or customers to the Corporation's products. For example, credit cards issued to the organization's members or customers usually carry custom graphics and the name and logo of the endorsing organization.

The Corporation's endorsing relationships with commercial firms, including professional sports teams and retailers, include co-branded cards and typically include incentives for Customers to purchase services or merchandise from the co-branding firm. In the U.S., the Corporation also markets sales finance accounts to finance purchases through a limited number of retailers or service providers.

Under the Corporation's agreements with endorsing organizations, the Corporation makes royalty payments to the endorsing organizations who grant the Corporation the exclusive right to market the Corporation's products to the organization's members or customers and provide their endorsements and mailing lists. Some organizations, such as financial institutions, also market the Corporation's products to their members or customers. The endorsing agreements generally have a term of five years. The royalty payments the Corporation pays to the endorsing organizations typically include payments based on the number of new accounts, activation, and revenue sharing (for example, a percentage of sales volume on accounts). In some cases the Corporation advances future compensation to the organization.

The Corporation provides rewards points based on spending volumes to certain Customers, who may include members or customers of the endorsing organizations. The Customers may redeem the rewards points for cash, merchandise, or services. In some cases the Corporation is responsible for the cost of the rewards points and in other cases the endorsing organization is responsible for the cost of the rewards points. In some cases the Corporation pays the endorsing organization a portion of the cost of the rewards points when the endorsing organization is responsible for them. See "Royalties to Endorsing Organizations" in Note 3 on page 73 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference.

The Corporation primarily uses direct mail, point of sale, event marketing, telesales, and Internet marketing to market its credit cards and other products. Each year, the Corporation develops numerous different marketing campaigns, customized for the Corporation's endorsing organizations, generating millions of direct mail pieces designed to add accounts and promote account usage. The Corporation's in-house advertising agency designs custom graphics for credit cards and prepares direct mail programs and advertisements. The Corporation conducts Internet marketing through a combination of banner, e-mail, search engine, and other advertisements.

In addition, the Corporation's marketing activities include efforts to retain profitable accounts and programs designed to activate new accounts and stimulate usage of existing accounts, primarily through access check mailings, balance transfer incentives and purchase reward programs.

The Corporation selectively purchases credit card, other consumer loan, and business loan portfolios from other financial institutions. Generally, the Corporation purchases portfolios when it can also obtain ongoing endorsing arrangements from the seller or from the portfolio's existing endorsing organizations. See "Loan Receivables" on pages 26 through 29 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference, for the amount of the Corporation's portfolio purchases.

The Corporation conducts marketing activities through regional and international offices. These regional and international offices assist the Corporation to obtain endorsements, increase its familiarity with local markets, better understand the needs and motivations of Customers, and assess the competitive environment. In the U.S., MBNA Marketing Systems, Inc. ("MBNA Marketing Systems"), a subsidiary of the Bank, has regional offices in Maine, Ohio, Texas, Maryland, Georgia, New Jersey, California, and New York. MBNA Europe has its headquarters in Chester, England and offices in London, England and Dublin, Ireland. In 2002, MBNA Europe opened a new branch in Las Rozas, Spain and began marketing in Spain. MBNA Ireland Limited has offices in Carrick-on-Shannon, Ireland. MBNA Canada has its headquarters in Ottawa, Ontario and a sales and marketing office in Montreal, Quebec.



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MBNA Marketing Systems has 16 telesales facilities in 10 states. As of December 31, 2003, it employed approximately 3,300 people in telesales, the majority of whom worked part-time. The telesales organization generates new accounts by calling prospects obtained from membership or customer lists of endorsing organizations and other prospect lists and calls existing Customers to market products.

In 2003, through telesales to new Customers, the Corporation added approximately 15% of its new accounts in the U.S. and 6.4% of its new accounts in the U.K., Ireland, and Spain (excluding accounts acquired through portfolio acquisitions). In recent periods the Corporation has begun to rely less on telesales in the U.S. In future periods, the Corporation expects to continue to rely less on telesales in the U.S. and more on other marketing channels, such as the Internet, point of sale, and event marketing, because of changing consumer attitudes and acceptance of telesales and federal and state regulatory initiatives such as do-not-call lists that restrict telesales. See "Regulatory Matters – Telemarketing Regulation" on page 13.

## **Credit**

The credit risk of lending to each Customer is evaluated through the combination of human judgment and the application of various credit scoring models and other statistical techniques. In making a credit determination, the Corporation considers an applicant's capacity and willingness to repay, stability and other factors. Important information in performing this credit assessment includes an applicant's income, debt-to-income levels, residence and employment stability, the rate at which new credit is being acquired, and the manner in which the applicant has handled the repayment of previously granted credit. An applicant who has favorable credit capacity and credit history characteristics is more likely to be approved and to receive a relatively higher credit line assignment. Favorable characteristics include low debt-to-income levels, a long history of steady employment, and little or no history of delinquent payments on other debt.

The Corporation develops credit scoring models to evaluate common applicant characteristics and their correlation to credit risk and utilizes such models in making credit assessments. The scoring models use the information available in the Customer's application and credit report to provide a general indication of the applicant's credit risk. Periodically, the scoring models are validated and, if necessary, realigned to maintain their accuracy and reliability.

In 2003, less than half of the credit applications received by the Corporation were approved. A significant percentage of credit applications that present high risk are declined through an automated decisioning process. Most decisions to approve a credit application are made by credit analysts who consider the credit factors described above and assign credit lines based upon this assessment. Credit analysts are encouraged to call applicants when they believe additional information, such as an explanation of delinquencies or debt levels, may assist the analyst in making the appropriate credit decision. Credit analysts undergo a comprehensive education program that focuses on evaluating an applicant's creditworthiness.

Once the credit analyst makes a decision, further levels of review are automatically triggered based on an analysis of the risk of each decision. This analysis is derived from previous experiential data and makes use of credit scores and other statistical techniques. Credit analysts also review applications obtained through pre-approved offers to ensure adherence to credit standards and assign an appropriate credit limit as an additional approach to managing credit risk.

Some credit applications that present low risk are approved through an automated decisioning process. In addition, credit applications for certain of the Corporation's accounts are decided through an automated system in order to provide instant financing for Customers' purchases with retailers or service providers.

Credit lines for existing Customers are regularly reviewed for credit line increases, and when appropriate, credit line decreases. The Corporation's Portfolio Risk Management division independently reviews selected applications to ensure quality and consistency.

Prior to acquiring a portfolio of loans, the Corporation reviews the historical performance and seasoning of the portfolio (including the portfolio's delinquency and loss characteristics, average balances, attrition rates, yields and collection performance) and reviews the account

management and underwriting policies and procedures of the financial institution selling the loan portfolio. Accounts that have been purchased by the

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Corporation were originally opened using criteria established by financial institutions other than the Corporation and may not have been subject to the same level of credit review as accounts originated by the Corporation. Once these accounts have been purchased and transferred to the Corporation for servicing, they are generally managed in accordance with the same policies and procedures as accounts originated by the Corporation.

### **Risk Control**

The Corporation manages risk at the Customer level through sophisticated analytical techniques combined with regular judgmental review. Transactions are evaluated at the point of sale, where risk levels are balanced with profitability and Customer satisfaction. In addition, Customers showing signs of financial stress are periodically reviewed, a process which includes an examination of the Customer's credit file, the Customer's behavior with the Corporation's accounts, and many times a phone call for clarification of the situation. As a result of these reviews, the Corporation may block use of accounts, reduce credit lines on certain accounts, and increase the annual percentage rates on certain accounts (generally after giving the Customer an opportunity to reject the rate increase, unless the increase was triggered by an event set out in the credit agreement).

A balanced approach is also used when stimulating portfolio growth. Risk levels are measured through statistical models that incorporate payment behavior, employment information, income information, and transaction activity. Credit bureau scores and attributes are obtained and combined with internal information to allow the Corporation to increase credit lines and promote account usage while balancing additional risk.

The Corporation manages fraud risk through a combination of judgmental reviews and sophisticated technology to detect and prevent fraud as early as possible. Technologies and strategies utilized include a neural net based fraud score, expert systems and fraud specific authorizations strategies. Address and other demographic discrepancies are investigated as part of the credit decision to identify and prevent identity theft.

### **Collection**

The Corporation's collection philosophy is to work with each Customer with a past due account at an early stage of delinquency in a persistent yet professional manner. The Corporation employs several computerized systems to assist in the collection of past due accounts. These systems analyze each Customer's purchase and repayment habits, and select accounts for initial contact with the objective of contacting the highest risk accounts first. Customers who are experiencing significant financial problems and who may consider filing for bankruptcy are referred to specialists who offer alternative payment programs to bankruptcy, including debt counseling, reduced interest rates, and fixed payment arrangements.

The Corporation works with Customers continually at each stage of delinquency. The Corporation's policy is to charge off open-end delinquent retail loans by the end of the month in which the account becomes 180 days contractually past due and closed-end delinquent retail loans by the end of the month in which they become 120 days contractually past due. Delinquent bankrupt accounts are charged off the end of the second calendar month following receipt of notification of filing from the applicable court, but not later than the applicable 180-day or 120-day timeframes described above. Accounts of deceased Customers are charged off when the loss is determined, but not later than the applicable 180-day or 120-day timeframes described above. Fraudulent accounts are charged off the end of the calendar month of the 90th day after identifying the account as fraudulent, but not later than the applicable 180-day or 120-day timeframes described above. Accounts failing to make a payment within charge-off policy timeframes are written off. Managers may on an exception basis defer charge-off of an account for another month, pending continued payment activity or other special circumstances. Senior manager approval is required on all such exceptions to charge-off. If an account has been charged-off, it may be sold to a third party or retained by the Corporation for recovery.



A Customer account may be re-aged to remove existing delinquency. Generally, the intent of a re-age is to assist Customers who have recently overcome temporary financial difficulties and have demonstrated both the ability and willingness to resume regular payments, but may be unable to pay the entire past due amount. To qualify for re-aging, the account must have been opened for at least one year and cannot have been re-aged

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during the preceding 365 days. An account may not be re-aged more than two times in a 5-year period. To qualify for re-aging, the Customer must also have made three regular minimum monthly payments within the last 90 days. In addition, the Corporation may re-age the account of a Customer who is experiencing long-term financial difficulties and apply modified, concessionary terms and conditions to the account. Such additional re-ages are limited to one in a 5-year period and must meet the qualifications for re-ages described above, except that the Customer's three consecutive minimum monthly payments may be based on the modified terms and conditions applied to the account. The Corporation's senior management and the Corporation's Loan Review Department approve all re-age strategies. Re-ages can have the effect of delaying charge-offs. For a discussion on the amount of re-ages and their impact, see "Loan Quality - Re-aged Loans" on page 42 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference.

## **Operations**

Account processing services performed by MBNA Technology, Inc. ("MBNA Technology"), a wholly-owned subsidiary of the Bank, include data processing, payment processing, statement rendering, card production and network services. MBNA Technology's data network provides an interface to MasterCard and Visa for performing authorizations and settlement funds transfers. Most data processing and network functions are performed at MBNA Technology's facilities in Dallas, Texas, and Newark, Delaware. MBNA Technology generates and mails monthly statements to Customers summarizing account activity and processes Customer payments. Third-party vendors provide data processing and print and mail services in the U.K. and account processing services for the Corporation's U.S. business card products. The Corporation depends on the continued availability and reliability of the MasterCard and Visa networks to provide for the exchange of financial information and funds between merchants and the Corporation.

## **Internet and Technology**

The Corporation offers several Internet-based products and services, including real-time online account access, credit card and consumer loan online applications, deposit products information, online balance transfers, and online shopping and security features.

The Corporation uses sophisticated systems and technology in all aspects of its business operations to enhance Customer service and improve efficiency. These systems include marketing databases, advanced telecommunications networks to support Customer service and telesales, a credit decisioning system which processes credit card applications with on-line credit bureaus to support credit, neural networks to identify and prevent fraud, and selective statement insertion to customize communications with Customers. These systems enable the Corporation to implement customized marketing and service strategies for endorsing organizations. The Corporation relies primarily on internal development of technology solutions to ensure the flexibility, quality, and responsiveness of computer and telecommunication systems needed in its business.

In 2004, the Corporation expects to complete a multi-phase project, begun in 2002, extending the use of the Corporation's U.S. core Customer information systems to MBNA Europe's business in the U.K. and Ireland, which currently relies on third-party vendors for such information systems. MBNA Canada already uses this system. The project will provide standardization of systems, appropriate infrastructure for an "internationalized" technical platform and systems enhancements for the MBNA Europe processing environment.

## **Terms and Conditions**

Each Customer and the Corporation enter into an agreement setting forth the terms and conditions of the Customer's account. The Corporation reserves the right to add or change any terms, conditions, services or features of its accounts at any time, including increasing or decreasing periodic finance charges, other charges, and minimum payment terms. The Customer agreement generally provides that the Corporation may apply such changes, when applicable, to current outstanding balances as well as to future transactions. In the U.S., the

Customer can avoid a rate increase by notifying the Corporation and then no longer using the account, unless the increase was triggered by an event set out in the agreement. In some cases the Corporation will

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initiate a change in terms only after the Customer has accepted the change, such as by continued use of the account after notice.

A Customer may use an account for purchases and cash advances. Periodic finance charges are calculated monthly by multiplying the applicable average daily balance on the account by the applicable daily periodic rate and by the number of days in the billing cycle.

The Corporation's other consumer loan accounts include accounts with a minimum monthly payment similar to credit card accounts, and with a fixed monthly payment amount. On the accounts with a fixed monthly payment amount, Customers take advances on the account and repay the advances over a fixed term with a fixed monthly payment amount, with the term and payment amount reset with each new advance.

The Corporation offers fixed and variable rates on accounts and also offers temporary promotional rates. In the U.S., variable rates are offered at a percentage rate tied to the U.S. prime rate published in The Wall Street Journal. See "Interest Rate Sensitivity" on pages 57 through 58 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference, for further discussion of the interest rates on the Corporation's accounts.

The Corporation assesses annual, late, overlimit, returned check, cash advance, express payment, and other miscellaneous fees earned on the Corporation's credit card and other consumer loans in accordance with each Customer's account agreement.

## **International**

The Corporation's international activities are performed primarily through the Bank's two foreign bank subsidiaries, MBNA Europe and MBNA Canada. See "Note 28: Foreign Activities" on page 94 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference, for certain financial information on the Corporation's international activities. The Corporation has been marketing credit card products through MBNA Europe since 1993 and through MBNA Canada since 1997. MBNA Europe and MBNA Canada also offer other consumer loan products. The Corporation uses substantially the same business strategy and operating methods in its international activities as in the U.S. Although MBNA Europe relies on third party vendors for some processing functions, it uses substantially the same processes as are used in the U.S.

## **Regulatory Matters**

The earnings of the Bank and the Corporation are affected by general economic conditions, monetary policies and the actions of various regulatory authorities, including the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation (the "FDIC"). In addition, numerous federal and state laws and regulations affect the activities of the Corporation. This regulatory framework is intended primarily for the protection of depositors and deposit insurance funds and not for the protection of security holders.

Set forth below is a description of the material elements of the laws, regulations, policies and other regulatory matters affecting the Corporation and its subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes and regulations, as amended, that are described.

### *General*

As a bank holding company, the Corporation is subject to regulation under the Bank Holding Company Act of 1956 (the "BHCA") and to the BHCA's examination and reporting requirements. Under the BHCA, bank holding companies may not directly or indirectly acquire the ownership or control of more than five percent of the voting shares or substantially all of the assets of any company, including a bank, without

the prior approval of the Federal Reserve Board. In addition, bank holding companies generally are prohibited under the BHCA from engaging in non-banking activities, subject to certain exceptions. The Gramm-Leach-Bliley Act, enacted in 1999 and discussed below, broadened the range of permissible activities.

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The Bank and MBNA Delaware are subject to supervision and examination by the OCC, the banks' primary regulator. The Bank and MBNA Delaware are insured by, and therefore are subject to the regulations of, the FDIC and are also subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered.

MBNA Europe is subject to regulation and supervision by the U.K. Financial Services Authority, the Federal Reserve Board, and the OCC. MBNA Canada is subject to regulation and supervision by the Office of the Superintendent of Financial Institutions, the Canadian Deposit Insurance Corporation, the Federal Reserve Board, and the OCC.

### *Dividends*

The principal source of funds to the Corporation to pay dividends, interest and principal on debt securities and to meet other obligations is dividends from the Bank. The Bank and MBNA Delaware are subject to limitations on the dividends they may pay to the Corporation. The Corporation may also be subject to limitations on the payment of dividends to stockholders. See "Dividend Limitations" on pages 45 through 46 and Note 25: "Dividend Limitations" on page 92 of the 2003 Annual Report to Stockholders, which are incorporated herein by reference. In addition, the Corporation, the Bank and MBNA Delaware are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine, under certain circumstances relating to the financial condition of a bank or bank holding company, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. Moreover, neither the Bank nor MBNA Delaware may pay a dividend if it is undercapitalized or would become undercapitalized as a result of paying the dividend. Banking regulators have indicated that banking organizations should generally pay dividends only out of current operating earnings.

### *Intercompany Borrowings and Transactions*

There are various legal restrictions on the extent to which the Corporation and its non-bank subsidiaries may borrow or otherwise obtain credit from, sell assets to, or engage in certain other transactions with, the Bank and MBNA Delaware, the Corporation's U.S. bank subsidiaries. In general, these restrictions require that any such extensions of credit must be secured by designated amounts of specified collateral and the aggregate of such transactions are limited, as to any one of the Corporation or its non-bank subsidiaries, to 10% of the U.S. bank subsidiary's capital stock and surplus, and as to the Corporation and all such non-bank subsidiaries in the aggregate, to 20% of the U.S. bank subsidiary's capital stock and surplus.

Extensions of credit and other transactions between one of the Corporation's U.S. bank subsidiaries on the one hand, and the Corporation or one of its non-bank subsidiaries on the other, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the Corporation's U.S. bank subsidiary as those prevailing at the time for comparable transactions between the Corporation's U.S. bank subsidiary and non-affiliated companies.

### *Capital Requirements*

The Federal Reserve Board, the OCC and the FDIC have substantially similar risk-based capital and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of their assets and off-balance sheet financial instruments.

Under the risk-based capital guidelines adopted by the Federal Reserve Board for bank holding companies, such as the Corporation, and the OCC for national banks, such as the Bank, the minimum requirement for the ratio of total capital (as defined below) to risk-weighted

assets (including certain off-balance sheet items, such as interest rate swaps) is 8%. At least half of the total capital may be comprised of common stockholders' equity, qualifying non-cumulative perpetual preferred stock, a limited amount of

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qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (“Tier 1 capital”). The remainder may consist of mandatory convertible debt securities, a limited amount of subordinated debt, other preferred stock that does not qualify as Tier 1 capital and a limited amount of reserves for possible credit losses (“Tier 2 capital” and together with Tier 1 capital, “Total capital”). In addition, the Federal Reserve Board has adopted a minimum leverage ratio (Tier 1 capital to average total assets less goodwill and certain other intangible assets) of 3% for bank holding companies that have the agency’s highest supervisory rating or have implemented the Federal Reserve’s market risk capital measure, and 4% for all other bank holding companies. See “Capital Adequacy” on page 46 and Note 26: “Capital Adequacy” on page 93 of the 2003 Annual Report to Stockholders, which are incorporated herein by reference. Bank holding companies and banks may be subject to higher risk-based and leverage capital ratios depending on other specific factors, such as interest rate risk, concentrations of credit risk, and the conduct of non-traditional activities.

The U.S. federal bank regulatory agencies’ risk-capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (the “Basel Committee”). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country’s supervisors can use to determine the supervisory policies they apply. In April 2003, the Basel Committee issued a consultative document for public comment, “The New Basel Capital Accord,” which proposes significant revisions to the current Basel Capital Accord. The proposed new accord would establish a three-part framework for capital adequacy that would include: (1) minimum capital requirements; (2) supervisory review of an institution’s capital adequacy and internal assessment process; and (3) market discipline through increased disclosures regarding capital adequacy.

In August 2003, an advance notice of proposed rulemaking was published by the Federal Reserve Board, the OCC, the FDIC and the Office of Thrift Supervision (collectively the “Agencies”). The advance notice of proposed rulemaking was titled “Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord; Internal Ratings-Based Systems for Corporate Credit and Operational Risk Advanced Measurement Approaches for Regulatory Capital; Proposed Rule and Notice” (“Proposed Regulatory Guidance”). The Proposed Regulatory Guidance sets forth for industry comment the Agencies’ views on a proposed framework for implementing the New Basel Capital Accord in the United States. In particular, the Proposed Regulatory Guidance describes significant elements of the Advanced Internal Ratings-Based approach for credit risk and the Advanced Measurement Approaches for operational risk. The Agencies have determined that the advanced risk and capital measurement methodologies of the new accord will be applied on a mandatory basis for large, internationally active banking organizations. Institutions subject to the mandatory application of the advanced approaches would be those institutions with total banking assets of \$250 billion or more or those institutions, such as the Corporation, with total on-balance-sheet foreign exposure of \$10 billion or more.

The final form of the rules to be adopted by U.S. bank regulators is still to be determined. Adoption of the proposed new accord could lower capital ratios for U.S. banking organizations, such as the Corporation and its banking subsidiaries, due in part to a new capital charge for operational risk and to the final treatment of certain credit risk exposures, including the treatment of credit card loans, unused line amounts and asset securitizations, in calculating regulatory capital.

### *Corporation Support of Bank*

Under the National Bank Act, if the capital stock of a national bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the bank’s stockholders and, if any such assessment is not paid, to sell the stock to make good the deficiency. Under Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to its U.S. bank subsidiaries and to commit resources to support them. Any non-deposit obligation of the Corporation’s U.S. bank subsidiaries to the Corporation is subordinate in right of payment to deposits, and certain obligations of the Corporation’s U.S. bank subsidiaries to the Corporation are subordinate in right of payment to certain other indebtedness of the Corporation’s U.S. bank subsidiaries. In the event of the Corporation’s bankruptcy, any commitment by the Corporation to a federal bank regulatory agency to maintain the capital of its U.S. bank subsidiaries will be assumed by the bankruptcy trustee and entitled to priority of payment.





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### *Prompt Corrective Action*

The Federal Deposit Insurance Act, as amended (the “FDIA”), requires, among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized” and “critically undercapitalized”. A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

Under the regulations adopted by the federal regulatory authorities, a bank insured by the FDIC, such as the Bank, will be: (1) “well capitalized” if it has a total capital ratio of 10 percent or greater, a Tier 1 capital ratio of 6 percent or greater and a leverage ratio of 5 percent or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (2) “adequately capitalized” if it has a total capital ratio of 8 percent or greater, a Tier 1 capital ratio of 4 percent or greater and a leverage ratio of 4 percent or greater (3 percent in certain circumstances) and is not “well capitalized”; (3) “undercapitalized” if it has a total capital ratio of less than 8 percent, a Tier 1 capital ratio of less than 4 percent or a leverage ratio of less than 4 percent (3 percent in certain circumstances); (4) “significantly undercapitalized” if it has a total capital ratio of less than 6 percent, a Tier 1 capital ratio of less than 3 percent or a leverage ratio of less than 3 percent and (5) “critically undercapitalized” if its tangible equity is equal to or less than 2 percent. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. At December 31, 2003, the Bank and MBNA Delaware were each considered “well capitalized”. See Note 26: “Capital Adequacy” on page 93 of the 2003 Annual Report of Stockholders, which is incorporated herein by reference.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized”. “Undercapitalized” institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (1) an amount equal to five percent of the depository institution’s total assets at the time it became undercapitalized and (2) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized”.

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

### *FDICIA and FDIC Insurance*

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) provided increased funding for the Bank Insurance Fund (“BIF”) of the FDIC and provided for expanded regulation of banks and bank holding companies. The regulation includes expanded federal banking agency examinations and increased powers of federal banking agencies to take corrective action to resolve the problems of insured depository institutions with capital deficiencies. These powers vary depending on which of several levels of capitalization a particular institution meets.

FDIC regulations adopted under FDICIA prohibit a bank from accepting brokered deposits unless (i) it is well capitalized or (ii) it is adequately capitalized and receives a waiver from the FDIC. A bank that is



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adequately capitalized and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions on a bank that is well capitalized. As of December 31, 2003 the Bank met the FDIC' s definition of a well capitalized institution for purposes of accepting brokered deposits. For the purposes of the brokered deposit rules, a bank is defined to be "well capitalized" if it maintains a ratio of Tier 1 capital to risk-adjusted assets of at least 6%, a ratio of Total capital to risk-weighted assets of at least 10% and a leverage ratio of at least 5% and is not subject to any order, direction or written agreement to maintain specific capital levels. Under the regulatory definition of brokered deposits, as of December 31, 2003, the Bank had brokered deposits of \$6.5 billion. See "Deposits" on pages 54 through 55 of the 2003 Annual Report of Stockholders, which is incorporated herein by reference, for discussion of brokered deposits.

### *Deposit Insurance*

The Bank and MBNA Delaware are subject to FDIC deposit insurance assessments for the BIF. Each financial institution is assigned to one of three capital groups – well capitalized, adequately capitalized or undercapitalized – and further assigned to one of three subgroups within a capital group, on the basis of supervisory evaluations by the institution' s primary federal and, if applicable, state supervisors and other information relevant to the institution' s financial condition and the risk posed to the applicable insurance fund. The assessment rate applicable to the Bank and MBNA Delaware in the future will depend in part upon the risk assessment classification assigned by the FDIC and in part on the BIF assessment schedule adopted by the FDIC. FDIC regulations currently provide that premiums related to deposits assessed by the BIF are to be assessed at a rate of between 0 cents and 27 cents per \$100 of deposits.

Because of favorable loss experience and a healthy reserve ratio in the BIF, well capitalized and well managed banks, including the Corporation' s U.S. bank subsidiaries, have in recent years paid no premiums for FDIC insurance. In the future, even well capitalized and well managed banks may be required to pay premiums on deposit insurance. The amount of any such premiums will depend on the outcome of legislative and regulatory initiatives as well as the BIF loss experience and other factors.

The Deposit Insurance Funds Act of 1996 also separated the Financing Corporation assessment to service the interest on its bond obligations from the BIF and the Savings Association Insurance Fund assessments. The amount assessed on individual institutions by the Financing Corporation will be in addition to the amount, if any, paid for deposit insurance according to the Financing Corporation' s risk-related assessment rate schedules. The Financing Corporation assessment rates may be adjusted quarterly to reflect a change in assessment base for the BIF. The current Financing Corporation annual assessment rate is 1.54 cents per \$100 of deposits.

### *Regulation of the Credit Card and Other Consumer Lending Businesses in the U.S.*

The relationship between the Corporation and its Customers in the U.S. is extensively regulated by federal and state consumer protection laws. The Truth in Lending Act requires consumer lenders to make certain disclosures along with their applications (for credit card accounts) and solicitations, upon opening an account and with each periodic statement. The Act also imposes certain substantive requirements and restrictions on lenders and provides Customers with certain rights to dispute unauthorized charges and to have billing errors corrected promptly. Customers are also given the right to have payments promptly credited to their accounts.

The Equal Credit Opportunity Act prohibits lenders from discriminating in extending credit on certain criteria such as an applicant' s sex, race and marital status. In order to protect borrowers from such discrimination, the Act requires that lenders disclose the reasons they took adverse action against an applicant or a Customer.

The Fair Credit Reporting Act generally regulates credit reporting agencies, but also imposes some duties on lenders as users of consumer credit reports. For instance, the Act prohibits the use of a consumer credit report by a lender except in connection with a proposed business transaction with the consumer. The Act also requires lenders to notify consumers when taking adverse action based upon information obtained from credit



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reporting agencies. Portions of the Act pre-empt state law and establish a uniform, national standard for financial institutions using consumer credit reports. In December 2003, provisions of the Act, which would have expired on January 1, 2004, were extended and important aspects of the Act that pre-empted state law were made permanent through the Fair and Accurate Credit Transactions Act of 2003.

The federal regulators are authorized to impose penalties for violations of these statutes and, in certain cases, to order the Corporation to pay restitution to injured Customers. Customers may bring actions for damages for certain violations. In addition, a Customer may be entitled to assert a violation of these consumer protection laws by way of set-off against the Customer's obligation to pay the outstanding loan balance.

The National Bank Act, which governs the activities of national banks, authorizes national banks to use various alternative interest rates when they make loans, including the highest interest rate authorized for state-chartered lenders located in the state where the national bank is located. This ability to "export" rates, as provided for in the Act, is relied upon by the Bank and MBNA Delaware to charge Customers the interest rates and fees permitted by Delaware law regardless of an inconsistent law of the state in which the Customer is located, thereby facilitating the Bank's and MBNA Delaware's nationwide lending activities.

The National Bank Act also permits the banks to provide debt cancellation and debt suspension products to their loan customers. In 2002, the OCC adopted new regulations governing the offering of these products by national banks, including requirements to provide written disclosures to consumers and obtain written acknowledgement from consumers of their receipt of such disclosures.

### *Interstate Banking*

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies, with Federal Reserve Board approval, to acquire banks located in states other than the holding company's home state, generally without regard to whether the transaction is prohibited under state law. In addition, national and state banks with different home states are permitted to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank passed legislation that expressly prohibits interstate bank mergers. Also, a bank may establish and operate a de novo branch in a state in which the bank does not maintain a branch if that state expressly permits de novo branching.

### *Financial Modernization Legislation: The Gramm-Leach-Bliley Act*

#### The Gramm-Leach-Bliley Act:

allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of nonbanking activities than are otherwise permissible, including insurance underwriting and agency, underwriting and dealing in securities, and making merchant banking investments in commercial companies;

allows insurers and other financial services companies to acquire banks;

removed various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and

establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

In order for a bank holding company to engage in the broader range of activities that are permitted by the Gramm-Leach-Bliley Act, all of its depository institutions must be well capitalized and well managed and it must file a declaration with the Federal Reserve Board that it elects to be a "financial holding company." In addition, to commence any new activity permitted by the Gramm-Leach-Bliley Act and to

acquire any company engaged in any new activity permitted by the Gramm-Leach-Bliley Act, each insured depository institution of the financial holding company must have received at least a “satisfactory” rating in its most recent examination under the Community Reinvestment Act.

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The Gramm-Leach-Bliley Act also allows a national bank to own a financial subsidiary engaged in certain of the nonbanking activities authorized for financial holding companies. The national bank must meet certain requirements, including that it and all of its depository institution affiliates be well capitalized and well managed. Also, to commence any new activity or acquire any company engaged in any new activity, the national bank must have at least a “satisfactory” Community Reinvestment Act examination rating. In addition, it must obtain approval of the OCC.

### *Privacy*

The financial privacy provisions of the Gramm-Leach-Bliley Act generally prohibit financial institutions, including the Corporation, from disclosing nonpublic personal information about consumers to third parties unless consumers have the opportunity to “opt out” of the disclosure. A financial institution is also required to provide an annual privacy notice to its customers. The Gramm-Leach-Bliley Act permits states to adopt more restrictive privacy laws. A number of U.S. states have adopted or are considering the adoption of more restrictive privacy laws, including laws prohibiting sharing of customer information without the customer’s prior permission and laws prohibiting financial institutions, including the Corporation, from disclosing nonpublic personal information about consumers to affiliates unless consumers have the opportunity to “opt out” of the disclosure. These laws may make it more difficult for the Corporation to share Customer information with its marketing partners and among its affiliates and reduce the effectiveness and increase the cost of marketing programs.

### *Community Reinvestment Act*

The Community Reinvestment Act requires banks to help serve the credit needs of their communities, including providing credit to low and moderate income individuals and geographies. Should the Corporation’s bank subsidiaries fail to adequately serve the community, potential penalties are regulatory denials to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions.

### *Telemarketing Regulation*

The Federal Telephone Consumer Protection Act, among other provisions, requires telemarketers to restrict calling to certain hours of the day and maintain a list of individuals asking to be included on that telemarketer’s “do-not-call” list. In January 2003, the Federal Trade Commission (the “FTC”) amended the Telemarketing Sales Rules further restricting telemarketing by establishing the national “do not call” list on which consumers may place themselves and which telemarketers must obtain to exclude all such consumers from telemarketing calls. In July 2003, the Federal Communications Commission (the “FCC”) amended its implementing regulations under the Telephone Consumer Protection Act to make them substantially consistent with the FTC’s rules. While the FTC’s rules do not apply to banks, the FCC’s rules do. As of January 2004, nearly 55 million phone numbers were registered on the national “do not call” list. Over the past few years, almost all states have passed or are considering similar legislation. All of these laws and regulations provide sanctions for non-compliance and increase the cost and decrease the efficiency and effectiveness of the Corporation’s telesales.

### *USA PATRIOT Act*

In 2001, comprehensive anti-terrorism legislation known as the USA PATRIOT Act of 2001 (the “USA Patriot Act”) was enacted. Title III of the USA Patriot Act substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and Customer due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the U.S.



The U.S. Treasury Department has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions, including the Corporation's bank subsidiaries. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

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Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal and reputational consequences for the institution. The USA Patriot Act's requirement to obtain and verify certain Customer information may hamper the ability of the Corporation to open some accounts where such information cannot be easily obtained or verified.

### *Regulation of International Business*

As with banking and consumer credit regulation in the U.S., the Corporation's international businesses are subject to extensive regulation.

#### *U.S. Regulation of International Business*

The Corporation's investments in MBNA Europe and MBNA Canada, and any further investments the Corporation may decide to make in MBNA Europe or MBNA Canada or in any other company outside the U.S., are subject to regulations adopted by the Federal Reserve Board pursuant to the BHCA and the Federal Reserve Act. Among other things, under certain circumstances these regulations require approval of the Federal Reserve Board to acquire, establish or make investments in companies outside the U.S. These regulations could limit the Corporation's ability to expand the business of MBNA Europe or MBNA Canada, as well as the Corporation's ability otherwise to expand its operations outside the U.S.

#### *International Regulation of MBNA Europe*

In the U.K., MBNA Europe is regulated by various agencies with broad investigatory, supervisory, and enforcement powers. MBNA Europe's primary regulator in the U.K. is the Financial Services Authority ("FSA"). The FSA uses a risk-based supervision methodology.

In order to establish the FSA as the single statutory body for financial business, the U.K. has enacted the Financial Services and Markets Act 2000 ("FSMA"). The FSMA gives the FSA its legal and regulatory powers and establishes its framework of control, including with respect to the conduct of senior management and MBNA Europe's business practices.

Other regulatory bodies in the U.K. are: the Office of the Information Commissioner, formerly the Data Protection Commissioner, which enforces the provisions of, and oversees compliance with, data protection legislation; The Office of Fair Trading, which grants consumer credit licenses, enforces the substantive provisions of consumer credit legislation and regulates fair trade and competition; and the Office of Telecommunication which oversees compliance with telecommunications licensing rules and regulations. The Enterprise Act 2002 gave the U.K. Office of Fair Trading increased powers to act on consumer complaints.

MBNA Europe's business in the U.K. is subject to numerous laws and regulations. The U.K. Consumer Credit Act 1974 requires lenders of consumer credit to have a Consumer Credit License. This Act governs the procedures for entering into credit card agreements, the provision of information to customers and the termination of agreements and imposes joint and several liability on the credit card issuer and the merchant for breach of contract or misrepresentation in connection with goods and services purchased with a credit card.

MBNA Europe is subject to increasing levels of consumer protection regulation in the U.K. The U.K. government's focus on over-indebtedness has resulted in a Committee of U.K. Members of Parliament (the Treasury Select Committee) carrying out an investigation into the transparency of credit card terms (including interest rates, annual percentage rates, interest calculations, and transaction and penalty charges), and into marketing methods for credit cards and products. The Committee made a series of recommendations in its Report published in December 2003, some of which are included in the Consultation Paper on the proposed revision of the Consumer Credit Act 1974. The recommendations include changes to advertising regulations, the form and content of credit card agreements, and the calculation of the annual percentage rates. If enacted, the recommendations contained in the Report could have the effect of lowering interest rates on credit card products and impacting MBNA Europe's marketing efforts. In addition, the European Commission has issued a draft amended Consumer Credit Directive which is in its consultation phase. This draft, if adopted, could further regulate the manner in which MBNA Europe markets and delivers its products.



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Interchange rates in the U.K. have been challenged recently. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network as a compensation for risk, grace period, and other operating costs. After a lengthy investigation by U.K. regulators of MasterCard interchange rates in the U.K., the regulators issued updated preliminary conclusions on February 11, 2003, finding that the interchange fee paid by merchant acquirers to MasterCard card issuers in the U.K. is anti-competitive and that the agreement between MasterCard's U.K. members for interchange leads to an unjustifiably high fee being paid to card-issuing banks. A hearing was held on May 21, 2003. The ruling may be appealed and the timing of a final ruling is uncertain. Similar regulatory action could be taken against VISA interchange rates in the U.K. In 2002, in response to European Union regulatory action, VISA agreed to reduce its interchange fee on transactions within the European Union, and in line with this reduction VISA reduced its interchange fee on transactions in the U.K. in October 2003. The Corporation cannot predict if or when interchange rates in the U.K. could be reduced further. Any potential impact could vary based on business strategies or other actions the Corporation will take to attempt to limit the impact.

The Data Protection Act 1998 requires data controllers to register under this Act and establishes principles to ensure data is processed fairly and securely, and gives consumers a right of access to the data held on them. Similar provisions apply in Ireland and Spain.

The Unfair Contracts Terms Act 1977 and the Unfair Terms in Consumer Contracts Regulations 1999 prohibit terms in consumer contracts which are unfair to the consumer and impose limits on the extent to which civil liability for breach of contract can be avoided by means of contract terms. In the U.K., default charges such as late, overlimit and returned check fees that exceed a genuine pre-estimate of the cost of the Customer's breach of contract are illegal. The Office of Fair Trading is carrying out an industry wide investigation into default charges and questioning how the Corporation estimates default charges.

The personal insolvency provisions of the Enterprise Act 2002, aimed at reducing the stigma of bankruptcy, will become effective in April 2004 and could lead to a rise in the level of bankruptcies in the U.K.

MBNA Europe in the U.K. currently complies with the Association of British Insurers voluntary regulations applicable to credit insurance. In January 2005, the FSA will become the single governmental body that will regulate insurance and MBNA Europe will be governed by the FSA when offering credit or other insurance related products to its Customers. The effect of this regulatory change on MBNA Europe's insurance products will depend on the final regulations adopted by the FSA.

MBNA Europe has operated in Ireland since 1997 through a branch ("MBNA Ireland") established under the European Union Second Council Directive. Capital and liquidity requirements are governed by FSA regulation. MBNA Ireland is otherwise subject to Irish consumer credit laws and banking laws enforced by the Ireland Financial Services Regulatory Authority. Increases in, or the introduction of, finance charges on Customers' accounts must be approved by the Ireland Financial Services Regulatory Authority.

MBNA Europe has operated in Spain since September 2002 through a branch ("MBNA Spain") established under the European Union Second Council Directive. Capital and liquidity requirements are governed by FSA regulations. MBNA Spain is otherwise subject to Spanish consumer credit and banking laws enforced by the Bank of Spain. New and increased fees on Customers' accounts and advertisements that refer to the cost of credit must be approved by the Bank of Spain.

### *International Regulation of MBNA Canada*

MBNA Canada was incorporated by letters patent as a Schedule II Bank pursuant to the Bank Act (Canada). As is required by the Bank Act, MBNA Canada obtained an order permitting it to commence business in November 1997. It is a wholly owned subsidiary of the Bank and is thus a foreign bank for the purposes of regulatory supervision in Canada. The Canadian banking regulatory regime in which MBNA Canada operates is a comprehensive system based on the provisions of the Bank Act, the regulations made under the Bank Act and guidelines and policy statements published by the Office of the Superintendent of Financial Institutions (Canada) ("OSFI"). MBNA Canada is also a member institution of the Canada Deposit Insurance Corporation.

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The Cost of Borrowing (Banks) Regulations made pursuant to the Bank Act set out, among other things, the requirements imposed on MBNA Canada regarding disclosure of interest charges, the inclusion of certain charges, the cost of borrowing, and the disclosure of the cost of borrowing.

MBNA Canada is subject to requirements regarding banking policies, procedures and standards. Among other things, the Bank Act requires the board of directors of a Canadian bank to establish investment and lending policies, procedures and standards. MBNA Canada must adhere to investment and lending standards that a reasonable and prudent person would apply and that avoid undue risk of loss and obtain a reasonable return. In addition, MBNA Canada must maintain adequate capital and adequate and appropriate forms of liquidity, and must comply with regulations and OSFI guidelines or policy statements relating to capital and liquidity requirements.

The Personal Information Protection and Electronic Documents Act (“PIPEDA”) establishes a code of conduct for the collection, use and disclosure of personal information. The code requires that personal information be retained, used and disclosed with consent of the individual to whom it relates, that an individual be given access to his or her personal information and that the personal information be accurate. The provisions of PIPEDA are monitored by the Privacy Commissioner. The Financial Consumer Agency of Canada is responsible for oversight of consumer protection measures applicable to federally regulated financial institutions.

### **Competition**

The Corporation’s business is highly competitive. The Corporation competes with numerous banks with national, regional and local operations in domestic and international markets and with non-bank competitors who issue credit and charge cards and make other consumer loans. Strategies used by the Corporation’s competitors include targeted marketing, low introductory rates, no annual fee credit cards, balance transfers with promotional rates, rewards programs, affinity marketing, and discounts on products and services. The Corporation also uses these strategies, emphasizing its strategy of marketing to people with a strong common interest and its superior Customer service, to effectively compete with its competitors.

### **Employees**

As of December 31, 2003, the Corporation had approximately 28,000 employees.

### **Important Factors Regarding Forward-Looking Statements**

From time to time the Corporation may make forward-looking oral or written statements concerning the Corporation’s future performance. Such statements are subject to risks and uncertainties that may cause the Corporation’s actual performance to differ materially from that set forth in such forward-looking statements. Words such as “believe”, “expect”, “anticipate”, “intend” or similar expressions are intended to identify forward-looking statements. Such statements speak only as of the date on which they are made. The Corporation undertakes no obligation to update publicly or revise any such statements. Factors which could cause the Corporation’s actual financial and other results to differ materially from those projected by the Corporation in forward-looking statements include, but are not limited to, the following:

#### *Legal and Regulatory*

The banking and consumer credit industry is subject to extensive regulation and examination. Changes in federal, state and foreign laws and regulations affecting banking, consumer credit, bankruptcy, privacy, consumer protection or other matters could materially impact the Corporation's performance. In recent years, changes in policies and regulatory guidance issued by banking regulators, and affecting credit card and consumer lending in particular, have had a significant impact on the Corporation and are likely to continue to do so in the future. The Corporation cannot predict the impact of these changes. The impact of changes in bank regulatory guidance is particularly difficult to assess as the guidance in recent years has provided, and is likely to continue to provide, considerable discretion to bank regulators in interpreting how the guidance

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should be applied generally or to particular lenders. In addition, the Corporation could incur unanticipated litigation or compliance costs.

### *Competition*

The Corporation's business is highly competitive. See "Competition" on page 16 above. Competition from other lenders could affect the Corporation's loans outstanding, Customer retention, and the rates and fees charged on the Corporation's loans.

### *Economic Conditions*

The Corporation's business is affected by general economic conditions beyond the Corporation's control, including employment levels, consumer confidence and interest rates. A recession or slowdown in the economy of the U.S. or in other markets in which the Corporation does business may cause an increase in delinquencies and credit losses and reduce new account and loan growth and charge volume.

### *Delinquencies and Credit Losses*

An increase in delinquencies and credit losses could affect the Corporation's financial performance. Delinquencies and credit losses are influenced by a number of factors, including the credit quality of the Corporation's credit card and other consumer loans, the composition of the Corporation's loans between credit card and other consumer loans, general economic conditions, the success of the Corporation's collection efforts, the seasoning of the Corporation's accounts, and the impact of actual or proposed changes in bankruptcy laws or regulatory policies.

### *Interest Rate Increases*

An increase in interest rates could increase the Corporation's cost of funds and reduce its net interest margin. The Corporation's ability to manage the risk of interest rate increases in the U.S. and other markets is dependent on its overall product and funding mix and its ability to successfully reprice outstanding loans. See "Interest Rate Sensitivity" on pages 57 through 58 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference, for a discussion of the Corporation's efforts to manage interest rate risk.

### *Availability of Funding and Securitization*

Changes in the amount, type, and cost of funding available to the Corporation could affect the Corporation's performance. A major funding alternative for the Corporation is the securitization of credit card and other consumer loans. Difficulties or delays in securitizing loans or changes in the current legal, regulatory, accounting, and tax environment governing securitizations could adversely affect the Corporation. See "Liquidity and Rate Sensitivity" on pages 52 through 59 of the 2003 Annual Report to Stockholders, which is incorporated herein by reference, for a discussion of the Corporation's liquidity.

### *Customer Behavior*

The acceptance and use of credit card and other consumer loan products for consumer spending has increased significantly in recent years. The Corporation's performance could be affected by changes in such acceptance and use, and overall consumer spending, as well as different acceptance and use in international markets.

### *New Products and Markets*

The Corporation's performance could be affected by difficulties or delays in the development of new products or services, including products or services other than credit card and other consumer loans, and in the expansion into new international markets. These may include the failure of Customers to accept products or services when planned, losses associated with the testing of new products or services, or financial, legal or other difficulties that may arise in the course of such implementation. In addition, the Corporation could face



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competition with new products or services, which may affect the success of such efforts. With the expansion to new international markets, the Corporation could experience difficulties and delays related to legal and regulatory issues, local custom, competition, and other factors.

### *Growth*

The growth of the Corporation's existing business and the development of new products and services will be dependent upon the ability of the Corporation to continue to develop the necessary operations, systems, and technology, hire qualified people, obtain funding for significant capital investments and selectively pursue loan portfolio acquisitions.

### **Available Information**

The Corporation maintains an Internet website at [www.mbna.com/investor](http://www.mbna.com/investor), where the Corporation makes available free of charge on or through its Internet website, its annual report of Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after it electronically files such materials with, or furnishes them to, the Securities and Exchange Commission. In the event the Corporation's Internet website is temporarily unavailable or the Corporation ceases to provide such information on or through such website free of charge, the Corporation will voluntarily provide electronic or paper copies of its filings free of charge upon request. The Corporation's corporate governance guidelines and the charters of its Audit Committee, Governance Committee and Compensation Committee are also available on its Internet website at [www.mbna.com/investor](http://www.mbna.com/investor) and in print to any stockholder upon request.

## **ITEM 2. PROPERTIES**

The Corporation has approximately 3,300,000 square feet of administrative offices and credit card facilities in five office complexes that it owns in Delaware, including the Corporation's headquarters in Wilmington. The majority of these facilities were designed and built expressly for the Corporation's credit card operations.

MBNA Technology conducts its processing from an approximately 587,000 square foot facility that the Corporation owns in Dallas, Texas as well as from approximately 548,000 square feet of office space at the facilities owned by the Corporation in Newark, Delaware. MBNA Technology is in the process of renovating a recently purchased 108,000 square foot building located in Richardson, Texas. The building will be used as a backup data center.

MBNA Marketing Systems has its headquarters in Camden, Maine, and regional offices in the following locations: Belfast, Maine; Cleveland, Ohio; Dallas, Texas (part of MBNA Technology's facility); Kennesaw, Georgia; Hunt Valley, Maryland; Aliso Viejo, California; Newark, New Jersey; and New York City, New York. These facilities are owned by the Corporation, except for the leased New York City and Aliso Viejo offices.

MBNA Marketing Systems has telesales and other facilities in Delaware, New Hampshire, Ohio, Pennsylvania and in several locations in Maine. Most of these facilities are owned by the Corporation.

MBNA Europe has approximately 392,000 square feet of administrative offices and credit card facilities that it owns in Chester, England. MBNA Europe is currently constructing an additional 107,000 square feet of space to support ongoing expansion. It has leased sales offices in London, England and it conducts operations in Ireland from owned facilities in Dublin, Ireland. In Madrid, Spain MBNA Europe operates out of 100,000 square feet of leased space. MBNA Ireland Limited owns a 121,000 square foot operations center in Carrick-on-Shannon, Ireland.

MBNA Canada has approximately 200,000 square feet of owned office space for its credit card operations in Ottawa, Ontario and 5,000 square feet of leased space in Montreal, Quebec.

### ITEM 3. LEGAL PROCEEDINGS

#### *Foreign Currency Conversion Fees Litigation*

MasterCard International Incorporated (“MasterCard”) and Visa U.S.A., Inc. (“Visa”) charge credit and debit cardholders a 1% fee on transactions in foreign currencies for conversion of the foreign currency into U.S. dollars. They require the Corporation’s banking subsidiaries and other member banks to disclose the fee in their cardholder agreements and to bill and collect the fee from cardholders. In *Schwartz v. Visa and MasterCard*, filed in February 2000 in the California Superior Court, the plaintiff claims that the 1% fee is not adequately disclosed under federal and California law. The plaintiffs are seeking unspecified monetary damages and injunctive relief. The trial court issued a decision holding that the federal disclosure requirement is not applicable but that the failure to disclose the fee on each statement that includes a fee is unfair under California law. The court held a hearing on restitution of the fees to cardholders. Visa and MasterCard have announced their intention to appeal the final decision. The Corporation is not a party to the *Schwartz* case and should have no direct potential liability in the matter. However, a large monetary judgment against MasterCard or Visa could indirectly affect the Corporation and other issuers. The plaintiffs or MasterCard and Visa or their creditors may seek to assess or otherwise assert claims against members of MasterCard and Visa, including the Corporation’s banking subsidiaries, to satisfy the judgment. Even if no claim is asserted against member banks, the impact of a judgment against MasterCard and Visa could adversely affect the business of the Corporation’s banking subsidiaries. The Corporation cannot determine at this time the outcome of this matter, the amount of any possible judgments against MasterCard and Visa, or the likelihood, amount or validity of any claims against the member banks resulting from these suits.

Unlike most other issuers, in the United States the Corporation’s banking subsidiaries do not charge a foreign currency conversion fee on consumer credit cards in addition to the fee charged by MasterCard and Visa. A number of other class actions are pending against other issuers claiming that these additional foreign currency conversion fees are not properly disclosed by those issuers as finance charges on the cardholder statement under Regulation Z. The Corporation is not a party to these suits.

The Corporation and the Bank are among the many card issuers who are defendants in *In Re Currency Conversion Fee Antitrust Litigation*, a purported class action, filed against the Corporation and the Bank in January 2002 in the U.S. District Court for the Southern District of New York. The plaintiffs, none of whom are the Corporation’s or the Bank’s Customers, claim that the defendants conspired in violation of the antitrust laws to charge foreign currency conversion fees and to conceal the fees by not disclosing them on cardholder statements, in violation of the Truth-in-Lending Act. The plaintiffs claim that the bank defendants and MasterCard and Visa conspired to charge the 1% foreign currency conversion fee assessed by MasterCard and Visa. The plaintiffs are seeking unspecified monetary damages and injunctive relief. In July 2003, the court recently granted a motion to dismiss certain Truth-in-Lending Act claims against the Corporation and other defendants, but denied a motion to dismiss the antitrust claims against the defendants. The Corporation and the Bank intend to file a motion for summary judgment after discovery. The Corporation and the Bank intend to defend this matter vigorously and believe that the claim is without merit.

The Corporation, the Bank and their affiliates are commonly subject to various pending or threatened legal proceedings, including certain class actions, arising out of the normal course of business. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of these matters will be. However, the Corporation believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on the Corporation’s consolidated financial condition or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2003, no matters were submitted to a vote of security holders of the Corporation.



## EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the Corporation's executive officers is set forth below.

Randolph D. Lerner (42) has been Chairman of the Corporation since November 2002. He has been a director of the Corporation and the Bank since April 1993. He is the owner and Chairman of the Cleveland Browns football team. He was previously a partner in Securities Advisors, L.P., which he had managed since September 1991. He is on the Board of Trustees of the New York Academy of Art, and a member of the Board of Trustees of the Hospital for Special Surgery in New York City. He is a member of the District of Columbia and New York Bar Associations.

Bruce L. Hammonds (55) has been President and Chief Executive Officer of the Corporation and a director of the Corporation since December 30, 2003. He most recently served as Chairman and Chief Executive Officer of the Bank. He previously served as Chief Operating Officer of the Bank and has been a director of the Bank since 1986. He has 34 years of management experience in consumer lending and was a member of the management team that established the Bank in 1982.

John R. Cochran III (52) is an Executive Vice Chairman of the Corporation and is the Chairman, Chief Executive Officer and President of the Bank. He previously served as the Chief Operating Officer and Chief Marketing Officer of the Bank. He has 31 years of management experience in the financial services industry and was a member of the management team that established the Bank in 1982. He has been a director of the Bank since 1986.

Richard K. Struthers (48) is a Vice Chairman of the Corporation and a Senior Executive Vice Chairman of the Bank. He also serves as Chief Loan Officer of the Bank. He is responsible for international operations, consumer finance, portfolio acquisitions, and the Bank's new American Express credit card program. He has 26 years of experience in consumer lending and was a member of the management team that established the Bank in 1982.

Lance L. Weaver (49) is a Vice Chairman of the Corporation and a Senior Executive Vice Chairman of the Bank. He is responsible for the Bank's U.S. credit card business, including business development marketing, sales, Customer satisfaction, U.S. regional operations, credit, customer assistance, and fraud. He previously served as the Chief Administrative Officer of the Bank. He is a board member and former chairman of MasterCard International Inc. He has 29 years of experience in consumer lending and administration and has been with the Corporation for 13 years. He has been a director of the Bank since 1993.

Gregg Bacchieri (48) is an Executive Vice Chairman of the Bank. He oversees U.S. Business Operations, which includes credit, customer assistance, U.S. credit card operations, and Customer satisfaction. He is a member of the MasterCard International Operations Committee. He has 26 years of management experience in consumer lending and was a member of the management team that established the Bank in 1982.

Frank P. Bramble Sr. (55) is a Vice Chairman of the Corporation and an Executive Vice Chairman of the Bank. He is responsible for strategic planning, expense management, resource allocation, research and development, process reengineering, procurement, the Office of the Customer Advocate, communications, and the MBNA Foundation. Before joining the Corporation in 2002, he served as chairman of Allfirst and chief executive, USA Division, for AIB Group, Allfirst's parent company. He previously held senior positions with NationsBank Maryland. He also served as Chief Executive Officer of Maryland National Bank and MNC Financial Inc., where he assisted in the Corporation's initial public offering in 1991. He has 36 years of management experience in the financial services industry.

Douglas R. Denton (57) is a Vice Chairman of the Corporation and a Senior Vice Chairman of the Bank. He also serves as Chief Technology Officer of the Bank. He is responsible for data processing, payment processing, statement rendering, card production and network services. His 35 year career has included a broad range of experience within the financial services industry and he has been with the Corporation for 13 years.

Louis J. Freeh (54) is the General Counsel for the Corporation and the Bank. He is responsible for legal matters and government affairs. He also serves as the Ethics Officer of the Bank. Prior to joining the

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Corporation in 2001, he served as director of the FBI for eight years, as a federal judge and as a federal prosecutor.

Charles C. Krulak (62) is a Vice Chairman of the Corporation and a Senior Vice Chairman of the Bank. He has been named Chief Administrative Officer of the Bank, effective April 1, 2004. He will have responsibility for corporate affairs, administrative services, personnel, facility management, education and career development, legal, control, and compliance. He most recently served as Chief Executive Officer of MBNA Europe. Before joining the Corporation in 1999, General Krulak had a 35 year career in the U.S. Marine Corps, including serving four years as Commandant.

Michael G. Rhodes (38) is an Executive Vice Chairman of the Bank. He oversees U.S. credit card marketing and business development. He was on the Board of the U.S. region of MasterCard International Inc. in 2002 and served as Chairman of the Board in 2000 and 2001. He has 13 years of experience in the financial services industry and has been with the Corporation for 11 years.

John W. Scheflen (57) is a Senior Vice Chairman of the Bank. He serves as Secretary of the Corporation and the Bank. He also serves as the Chief Risk Officer of the Bank. He previously served as Chief Counsel of the Corporation. He is responsible for corporate governance, compliance, control, and information security. He assisted with the legal aspects of the Corporation's initial public offering in 1991. He has 29 years experience in law and has been with the Corporation for 12 years.

Kenneth A. Vecchione (49) is a Vice Chairman of the Corporation and a Senior Vice Chairman of the Bank. He also serves as Chief Financial Officer and Chief Accounting Officer of the Bank. He previously served as Chief Financial Officer at AT&T Universal Card Services, First Data Corporation's Electronic Funds Management business, and Citicorp's Credit Card business. He has 27 years experience in the financial services industry and he has been with the Corporation for 6 years.

Vernon H. C. Wright (61) is the Chief Financial Officer and Chief Accounting Officer of the Corporation. He is also an Executive Vice Chairman of the Bank. He is responsible for the Corporation's finance areas, including accounting and tax, as well as foreign and domestic treasury activities, including structured products, investment portfolios, and interbank funding. He is also responsible for all global capital markets and corporate finance activities. He has more than 35 years of experience in consumer and corporate banking and has been with the Corporation and its predecessor companies for 35 years. He has been a director of the Bank since 1992.

## **PART II**

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

"Common Stock Price Range and Dividends" on page 103 and "Dividend Limitations" on pages 45 and 46 of the 2003 Annual Report to Stockholders are incorporated herein by reference. "Securities Authorized for Issuance Under Equity Compensation Plans" on page 21 of the Definitive Proxy Statement is incorporated herein by reference.

### **ITEM 6. SELECTED FINANCIAL DATA**

"Five-Year Statistical Summary" on pages 12 and 13 of the 2003 Annual Report to Stockholders is incorporated herein by reference.

**ITEM 7. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

“Management’ s Discussion and Analysis of Financial Condition and Results of Operations” on pages 14 through 61 of the 2003 Annual Report to Stockholders is incorporated herein by reference.



**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

“Interest Rate Sensitivity” on pages 57 through 58 and “Foreign Currency Exchange Rate Sensitivity” on pages 58 through 59 of the 2003 Annual Report to Stockholders are incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The “Report of Independent Auditors”, the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, and the “Quarterly Data” on pages 63 through 102 of the 2003 Annual Report to Stockholders are incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

The Corporation’s management (including the Chief Executive Officer and the Chief Financial Officer) conducted an evaluation of the Corporation’s disclosure controls and procedures (as such term is defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the last day of the period covered by this report as required by Rule 13a-15(b) under the Exchange Act. Based on such evaluation, the Corporation’s Chief Executive Officer and Chief Financial Officer concluded as of the last day of the period covered by this report that the Corporation’s disclosure controls and procedures were effective in alerting them on a timely basis to material information required to be included in the Corporation’s reports filed or submitted under the Exchange Act, particularly during the period in which this quarterly report was being prepared.

There was no change in the Corporation’s internal control over financial reporting that occurred during the fourth fiscal quarter of 2003 that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

“Election of Directors” on pages 5 through 6, the fifth paragraph of “Board of Directors” on page 7, “Code of Ethics” on page 11 and “Section 16(a) Beneficial Ownership Reporting Compliance” on page 34 in the Definitive Proxy Statement are incorporated herein by reference.

## **ITEM 11. EXECUTIVE COMPENSATION**

“Compensation of Directors” on pages 9 and 10, “Compensation Committee Report on Executive Compensation” on pages 14 through 17, “Compensation Committee Interlocks and Insider Participation” on page 18, “Executive Compensation” on pages 18 through 24, and “Stock Performance Graph” on page 25 in the Definitive Proxy Statement are incorporated herein by reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

“Security Ownership of Management and Certain Beneficial Owners” on pages 3 and 4 in the Definitive Proxy Statement and “Securities Authorized for Issuance Under Equity Compensation Plans” on page 21 in the Definitive Proxy Statement are incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

“Compensation Committee Interlocks and Insider Participation” on page 18 and “Certain Relationships” on pages 26 through 27 in the Definitive Proxy Statement are incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

“Independent Auditors” on pages 28 through 30 (other than the sub-sections thereof titled “Policy on Employment of Personnel of Independent Auditors” and “Policy on Engagement of Independent Auditors for Personal Services by Audit Committee Members and Executive Officers”) in the Definitive Proxy Statement is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

1. The following are incorporated herein by reference from the pages designated in the 2003 Annual Report to Stockholders:

	<u>Page</u>
Report of Independent Auditors	63
Consolidated Statements of Financial Condition, December 31, 2003 and 2002	64
Consolidated Statements of Income for the years ended December 31, 2003, 2002 and 2001	65
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001	66
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	67
Notes to the Consolidated Financial Statements	68-101

2. Financial Statement Schedules

No Financial Statement Schedules are required to be filed.

3. Exhibits:

The following exhibits are incorporated by reference or filed herewith. References to the 1990 Form S-1 are to the Registrant's Registration Statement on Form S-1 effective January 22, 1991, Registration No. 33-38125. References to the 1997 Form S-4 are to Amendment No. 1 of the Registrant's Registration Statement on Form S-4, Registration No. 333-21181, filed on February 25, 1997. References to the 1991 Form 10-K, the 1992 Form 10-K, the 1993 Form 10-K, the 1994 Form 10-K, the 1995 Form 10-K, the 1996 Form 10-K, the 1997 Form 10-K, the 1998 Form 10-K, the 1999 Form 10-K, the 2000 Form 10-K, the 2001 Form 10-K and the 2002

Form 10-K are to the Registrant' s Annual Reports on Form 10-K for the years ended December 31, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001 and 2002, respectively.

- Exhibit 3.1 Articles of Incorporation, as amended and supplemented (incorporated by reference to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 1998).
- Exhibit 3.2 Bylaws, as amended (incorporated by reference to Exhibit 3.2 of 2002 Form 10-K).
- Exhibit 4.1\* Senior Indenture, dated as of September 29, 1992, between the Registrant and Bankers Trust Company, as Trustee.
- Exhibit 4.2\* Subordinated Indenture, dated as of November 24, 1992, between the Registrant and Harris Trust and Savings Bank, as Trustee.

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Exhibit 4.3*	Issuing and Paying Agency Agreement, dated as of December 10, 1991, and amended as of August 11, 1993, December 21, 1994 and May 6, 1996 between MBNA America Bank, N.A. and First Trust of New York, National Association.
Exhibit 4.4	Junior Subordinated Indenture, dated as of December 18, 1996, between the Registrant and The Bank of New York as Debenture Trustee (incorporated by reference to Exhibit 4 (c) of 1997 Form S-4), as supplemented by the First Supplemental Indenture, dated as of June 27, 2002 (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on June 26, 2002) and by the Second Supplemental Indenture, dated as of November 27, 2002 (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on November 26, 2002).
Exhibit 4.5	Amended and Restated Trust Agreement, dated as of December 18, 1996, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.6 of 1996 Form 10-K).
Exhibit 4.6	Guarantee Agreement, dated as of December 18, 1996, between the Registrant and The Bank of New York (incorporated by Reference to Exhibit 4.7 of 1996 Form 10-K).
Exhibit 4.7	Amended and Restated Trust Agreement, dated as of January 23, 1997, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.8 of 1996 Form 10-K).
Exhibit 4.8	Guarantee Agreement, dated as of January 23, 1997, between the Registrant and The Bank of New York (incorporated by Reference to Exhibit 4.9 of 1996 Form 10-K).
Exhibit 4.9	Amended and Restated Trust Agreement, dated as of March 31, 1997, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.10 of 2001 Form 10-K).
Exhibit 4.10	Guarantee Agreement, dated as of March 31, 1997, between the Registrant and The Bank of New York (incorporated by Reference to Exhibit 4.11 of 1997 Form 10-K).
Exhibit 4.11	Amended and Restated Trust Agreement, dated as of June 27, 2002, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 26, 2002).
Exhibit 4.12	Guarantee Agreement, dated as of June 27, 2002, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.12 of 2002 Form 10-K).
Exhibit 4.13	Amended and Restated Trust Agreement, dated as of November 27, 2002, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on November 26, 2002).
Exhibit 4.14	Guarantee Agreement, dated as of November 27, 2002, between the Registrant and The Bank of New York (incorporated by reference to Exhibit 4.14 of 2002 Form 10-K).
Exhibit 4.15	The Agency Agreement, dated as of July 17, 1997 (incorporated by reference to Exhibit 4.12 of 1999 Form 10-K), as amended by Amendment No. 1, dated as of April 10, 2001(incorporated by reference to Exhibit 4.12 of 2000 Form 10-K), and as further amended by Amendment No. 2, dated as of April 10, 2002 (incorporated by reference to Exhibit 4.15 of 2002 Form 10-K), among MBNA America Bank, N.A., Bank One Trust Company, N.A., as global agent, Bank One, N.A., London Branch, as London paying agent and London Issuing agent, Bank One Trust Company, N.A., as registrar and New York paying agent, and Credit Agricole Indosuez, as Transfer agent and Luxembourg paying agent.

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Exhibit 4.16	The Fourth Supplemental Trust Deed, dated May 8, 2003 (the “Fourth Supplement”), attaching the Trust Deed, dated May 7, 1999 as amended by the First Supplemental Trust Deed, dated May 8, 2000, the Second Supplemental Trust Deed, dated May 4, 2001, the Third Supplemental Trust Deed, dated May 8, 2002, and the Fourth Supplement, each among MBNA Europe Funding PLC, MBNA America Bank, N.A. and Deutsche Trustee Company Limited (formerly Bankers Trustee Company Limited).
Exhibit 10.1	License Agreement with MasterCard (incorporated by reference to Exhibit 10.3 of 1990 Form S-1).
Exhibit 10.2	License Agreement with VISA (incorporated by reference to Exhibit 10.4 of 1990 Form S-1).
Exhibit 10.3	Share Purchase Agreement with Alfred Lerner (including Registration Rights Agreement) (incorporated by reference to Exhibit 10.10 of 1990 Form S-1).
Exhibit 10.4	Stock Purchase Agreement, dated as of August 15, 2003, between the Registrant and Norma Lerner, Randolph Lerner and Nancy Beck, as co-Executors of the Estate of Alfred Lerner (incorporated by reference to Exhibit 10 to the Current Report on Form 8-K filed on August 19, 2003).
Exhibit 10.5	Senior Syndicated Revolving Credit Facility Agreement, dated July 18, 2003 (incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended June 30, 2003).
Exhibit 10.6	Multicurrency Revolving Credit and Sterling Acceptance Facility Agreement dated as of June 5, 2000, among MBNA International Bank Limited, certain lenders and Lloyds Bank PLC as Agent (incorporated by reference to Exhibit 10.5 of 2000 Form 10-K).
Exhibit 10.7**	Form of Executive Non-Compete Agreement (incorporated by reference to Exhibit 10 of Form 10-Q for the quarter ended September 30, 1999) and a schedule (filed herewith) setting forth additional information with respect to such agreement.
Exhibit 10.8**	1991 Long Term Incentive Plan, as amended (incorporated by reference to Exhibit 10.3 of Form 10-Q for the quarter ended March 31, 1997 and Exhibit 10.8 of 1995 Form 10-K), and forms of Stock Option Agreements (1993 agreement incorporated by reference to Exhibit 10.12 of 1993 Form 10-K and 1995 agreements incorporated by reference to Exhibit 10.8 of 1995 Form 10-K).
Exhibit 10.9**	1997 Long Term Incentive Plan, as amended (incorporated by reference to Exhibit 10 of Form 10-Q for the quarter ended September 30, 2002) and form of Stock Option Grant (incorporated by reference to Exhibit 10.9 of 1997 Form 10-K).
Exhibit 10.10**	MBNA Corporation’s 1997 Long Term Incentive Plan Policies (incorporated by reference to Exhibit 10.5 of Form 10-Q for the quarter ended June 30, 2003).
Exhibit 10.11**	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.9 of 1995 Form 10-K).
Exhibit 10.12**	Restricted Stock Agreement, dated as of March 8, 2000 (incorporated by reference to Exhibit 10.3 of Form 10-Q for the quarter ended March 31, 2000).
Exhibit 10.13**	MBNA Corporation Supplemental Executive Retirement Plan, as Amended and Restated effective July 1, 2003 (incorporated by reference to Exhibit 10.4 of Form 10-Q for the quarter ended June 30, 2003).
Exhibit 10.14**	Assumed Deferred Compensation Plans (1989 Deferred Compensation Plan incorporated by reference to Exhibit 10.12 of 1991 Form 10-K and 1988 Deferred Compensation Plan Incorporated by reference to Exhibit 10.14 of 1993 Form 10-K).
Exhibit 10.15**	MBNA Corporation Senior Executive Performance Plan (incorporated by reference to Exhibit 10 of Form 10-Q for the quarter ended March 31, 2001).

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Exhibit 10.16**	Deferred Compensation Plan and form of Agreement, as amended and restated effective April 1, 1995 (incorporated by Reference to Exhibit 10.16 of 1994 Form 10-K).
Exhibit 10.17**	Amended and Restated Employment and Retirement Agreement, dated as of December 12, 2003, between the Registrant and Charles M. Cawley.
Exhibit 10.18**	Agreement dated December 15, 2002 between the Registrant and Norma Lerner (incorporated by reference to Exhibit 10.17 of 2002 Form 10-K).
Exhibit 10.19**	Supplemental Executive Insurance Plan (incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended September 30, 2003).
Exhibit 10.20**	Change of Control Agreement, dated as of July 2003, by and between MBNA Corporation, MBNA America Bank, N.A. and certain executive officers of MBNA Corporation (incorporated by reference to Exhibit 10.2 of Form 10-Q for the quarter ended June 30, 2003).
Exhibit 10.21**	Change of Control Agreement, dated as of July 2003, by and between MBNA Corporation, MBNA America Bank, N.A. and certain executive officers of MBNA Corporation (incorporated by reference to Exhibit 10.3 of Form 10-Q for the quarter ended June 30, 2003) and a schedule (filed herewith) setting forth additional information with respect to such agreement.
Exhibit 12	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
Exhibit 13	2003 Annual Report to Stockholders.
Exhibit 21	Subsidiaries of the Corporation.
Exhibit 23	Consent of Independent Auditors.
Exhibit 31.1	Section 302 Chief Executive Officer Certification.
Exhibit 31.2	Section 302 Chief Financial Officer Certification.
Exhibit 32.1	Section 906 Chief Executive Officer Certification.
Exhibit 32.2	Section 906 Chief Financial Officer Certification.

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\* The Registrant agrees to furnish a copy to the Securities and Exchange Commission on request.

\*\* Management contract or compensatory plan or arrangement required to be filed as an Exhibit pursuant to Item 15(c) of Form 10-K.

#### 4. Reports on Form 8-K

1. Report dated October 2, 2003, reporting the securitization of CAD\$500.0 million of credit card loan receivables by MBNA Canada Bank.

2. Report dated October 2, 2003, reporting the securitization of \$150.0 million of credit card loan receivables by MBNA America Bank, N.A.

3. Report dated October 15, 2003, reporting the securitization of \$500.0 million of credit card loan receivables by MBNA America Bank, N.A.

4. Report dated October 16, 2003, reporting MBNA Corporation's earnings release for the third quarter of 2003.

5. Report dated October 31, 2003, reporting the net credit losses and loan delinquency ratios for MBNA Corporation, for its loan receivables and managed loans for October 2003.

6. Report dated November 5, 2003, reporting the securitization of \$100.0 million of credit card loan receivables by MBNA America Bank N.A.

7. Report dated November 6, 2003, reporting the securitization of 706.0 million of credit card loan receivables by MBNA Europe Bank Limited.



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8. Report dated November 6, 2003, reporting the securitization of \$500.0 million of credit card loan receivables by MBNA America Bank, N.A.

9. Report dated November 30, 2003, reporting the net credit losses and loan delinquency ratios for MBNA Corporation, for its loan receivables and managed loans for November 2003.

10. Report dated December 18, 2003, reporting the securitization of \$500.0 million of credit card loan receivables by MBNA America Bank, N.A.

11. Report dated December 31, 2003, reporting the net credit losses and loan delinquency ratios for MBNA Corporation, for its loan receivables and managed loans for December 2003.

12. Report dated January 22, 2004, reporting MBNA Corporation' s earnings release for the fourth quarter of 2003.

13. Report dated January 31, 2004, reporting the net credit losses and loan delinquency ratios for MBNA Corporation, for its loan receivables and managed loans for January 2004.

14. Report dated February 25, 2004, reporting the securitization of \$600.0 million of credit card loan receivables by MBNA America Bank, N.A.





[LOGO] PRINTED ON RECYCLED PAPER



Dated 8th May, 2003

**MBNA EUROPE FUNDING PLC**

- and -

**MBNA AMERICA BANK, NATIONAL ASSOCIATION**

- and -

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
**(formerly called Bankers Trustee Company Limited)**

---

**FOURTH SUPPLEMENTAL TRUST DEED**

**further modifying and restating the**  
**Trust Deed dated 7th May, 1999**  
**(as previously modified and/or restated)**  
**relating to a 6,000,000,000**  
**Euro Medium Term Note Programme**

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**For MBNA Europe Funding plc and**  
**MBNA America Bank, National Association:**

**ALLEN & OVERY**  
**One New Change**  
**London EC4M 9QQ**

**For Deutsche Trustee Company Limited**  
**(formerly called Bankers Trustee Company Limited):**

**LINKLATERS**  
**One Silk Street**  
**London EC2Y 8HQ**

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**THIS FOURTH SUPPLEMENTAL TRUST DEED is made on 8th May, 2003 BETWEEN:**

(1) **MBNA EUROPE FUNDING PLC**, a company incorporated with limited liability under the laws of England and Wales with company number 2950906, whose registered office is at Stansfield House, Chester Business Park, Chester CH4 9QQ, United Kingdom (the “**Issuer**”);

(2) **MBNA AMERICA BANK, NATIONAL ASSOCIATION**, a national banking association organised under the laws of the United States of America, whose principal office is at 1100 North King Street, Wilmington, DE 19884, United States of America (the “**Guarantor**”); and

(3) **DEUTSCHE TRUSTEE COMPANY LIMITED** (formerly called Bankers Trustee Company Limited), a company incorporated with limited liability under the laws of England and Wales, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (the “**Trustee**”, which expression shall, wherever the context so admits, include such company and all other persons or companies for the time being the trustee or trustees of these presents) as trustee for the Noteholders, Receiptholders and the Couponholders (each as defined below).

**WHEREAS:**

(A) This Fourth Supplemental Trust Deed is supplemental to:

(i) the Trust Deed dated 7th May, 1999 (hereinafter called the “**Principal Trust Deed**”) made between the Issuer, the Guarantor and the Trustee and relating to the 1,500,000,000 (now 6,000,000,000) Euro Medium Term Note Programme (the “**Programme**”);

(ii) the First Supplemental Trust Deed dated 8th May, 2000 (hereinafter called the “**First Supplemental Trust Deed**”) made between the Issuer, the Guarantor and the Trustee and modifying the provisions of the Principal Trust Deed;

(iii) the Second Supplemental Trust Deed dated 4th May, 2001 (hereinafter called the “**Second Supplemental Trust Deed**”) made between the Issuer, the Guarantor and the Trustee and modifying and restating the Principal Trust Deed (as previously modified); and

(iv) the Third Supplemental Trust Deed dated 8th May, 2002 (hereinafter called the “**Third Supplemental Trust Deed**”) made between the Issuer, the Guarantor and the Trustee and modifying and restating the Principal Trust Deed (as previously modified) (together with the Principal Trust Deed, the First Supplemental Trust Deed and the Second Supplemental Trust Deed, the “**Subsisting Trust Deeds**”).

(B) On 8th May, 2003, the Issuer published a modified Offering Circular relating to the Programme (the “**Offering Circular**”).

(C) By virtue of Clause 18(B) of the Principal Trust Deed, the Trustee may without the consent or sanction of the Noteholders, the Receiptholders or Couponholders at any time and from time to time concur with the Issuer (as therein defined) in making any modification, *inter alia*, to these presents (other than as therein provided) which in the opinion of the Trustee it may be proper to make PROVIDED THAT the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders.



- (D) The Issuer has requested the Trustee to concur in making further modifications to the Trust Deed to reflect the relevant modifications to the Offering Circular referred to in Recital (B) above.

- (E) The Trustee, being of the opinion that it is proper to make the further modifications and that they are not materially prejudicial to the interests of the Noteholders, has concurred with the Issuer in making such modifications and, as evidenced by its execution hereof, has agreed that notice of such further modifications need not be given to the Noteholders.

**NOW THIS FOURTH SUPPLEMENTAL TRUST DEED WITNESSES AND IT IS HEREBY DECLARED** as follows:

### 1. DEFINITIONS

All words and expressions defined in the Subsisting Trust Deeds shall, unless the context otherwise requires, have the same meaning in this Fourth Supplemental Trust Deed.

### 2. MODIFICATIONS

Save:

- (i) in relation to all Series of Notes issued during the period up to and including the day last preceding the date of this Fourth Supplemental Trust Deed and any Notes issued on or after the date of this Fourth Supplemental Trust Deed so as to be consolidated and form a single Series with the Notes of any Series issued during the period up to and including such last preceding day; and
- (ii) for the purpose (where necessary) of construing the provisions of this Fourth Supplemental Trust Deed,

with effect on and from the date of this Fourth Supplemental Trust Deed:

- (a) the Principal Trust Deed (as previously modified and/or restated) is further modified in such manner as would result in the Principal Trust Deed being in the form set out in the Schedule hereto and shall henceforth have effect as so modified;
- (b) the provisions of the Principal Trust Deed (as previously modified and/or restated) insofar as the same still have effect shall cease to have effect and in lieu thereof the provisions of the Principal Trust Deed as so modified (and being in the form set out in the Schedule hereto) shall have effect.

### 3. GENERAL

- (A) The provisions of the Principal Trust Deed (as previously modified and/or restated) as further modified and restated by this Fourth Supplemental Trust Deed shall be valid and binding obligations of each of the Issuer, the Guarantor and the Trustee and the provisions of the Principal Trust Deed (as previously modified and/or restated) shall continue to be valid and binding obligations of the Issuer and the Guarantor, in each case in respect of all Notes issued by the Issuer under the Programme prior to the date hereof and any Notes issued on or after the date of this Fourth Supplemental Trust Deed so as to be consolidated and form a single series with the Notes of any series issued prior to the date of this Fourth Supplemental Trust Deed.

- (B) The Subsisting Trust Deeds and this Fourth Supplemental Trust Deed shall henceforth be read and construed together as one trust deed.
  - (C) A memorandum of this Fourth Supplemental Trust Deed shall be endorsed by the Trustee on the original of the Principal Trust Deed and by the Issuer and the Guarantor on their respective duplicates of the Principal Trust Deed.
-

**THIS TRUST DEED** is made on 7th May, 1999 BETWEEN:

- (1) **MBNA EUROPE FUNDING PLC**, a company incorporated with limited liability under the laws of England and Wales with company number 2950906, whose registered office is at Stansfield House, Chester Business Park, Chester CH4 9QQ, United Kingdom (the “**Issuer**”);
- (2) **MBNA AMERICA BANK, NATIONAL ASSOCIATION**, a national banking association organised under the laws of the United States of America, whose principal office is at 1100 North King Street, Wilmington, DE 19884, United States of America (the “**Guarantor**”); and
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED** (formerly called Bankers Trustee Company Limited), a company incorporated with limited liability under the laws of England and Wales, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (the “**Trustee**”, which expression shall, wherever the context so admits, include such company and all other persons or companies for the time being the trustee or trustees of these presents) as trustee for the Noteholders, the Receiptholders and the Couponholders (each as defined below).

**WHEREAS:**

- (1) Pursuant to a resolution of the Board of Directors of the Issuer passed on 6th May, 1999 the Issuer has resolved to establish a single Euro Medium Term Note Programme pursuant to which the Issuer may from time to time issue Senior Notes and Dated Subordinated Notes under the guarantee of the Guarantor, all as set out therein and herein. Notes up to a maximum nominal amount (calculated in accordance with Clause 3(5) of the Programme Agreement (as defined below)) from time to time outstanding of 6,000,000,000 (subject to increase as provided in the Programme Agreement) (the “**Programme Limit**”) may be issued pursuant to the said Programme.
- (2) Pursuant to a resolution of the Treasury and Loan Committee of the Board of Directors of the Guarantor passed on 15th April, 1999 and 15th May, 1999 respectively, the Guarantor has resolved to guarantee all Notes issued under the said Programme by the Issuer and to enter into certain covenants as set out in this Trust Deed.
- (3) The Trustee has agreed to act as trustee of these presents for the benefit of the Noteholders, the Receiptholders and the Couponholders upon and subject to the terms and conditions of these presents.

**NOW THIS TRUST DEED WITNESSES AND IT IS AGREED AND DECLARED** as follows:

**1. DEFINITIONS**

- (A) IN these presents unless there is anything in the subject or context inconsistent therewith the following expressions shall have the following meanings:

“**Agency Agreement**” means the agreement dated 7th May, 1999, as amended and/or supplemented and/or restated from time to time, pursuant to which the Issuer and the Guarantor have appointed the Agent and the other Paying Agents in relation to all or any Series of the Notes and any other agreement for the time being in force appointing further or other Paying Agents or another Agent in relation to all or any Series of the Notes, or in connection with their duties, the terms of which have previously been approved in writing by

the Trustee, together with any agreement for the time being in force amending or modifying with the prior written approval of the Trustee any of the aforesaid agreements;

“**Agent**” means, in relation to all or any Series of the Notes, Deutsche Bank AG London at its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, or, if applicable, any Successor agent in relation thereto;

“**Appointee**” means any person appointed by the Trustee under these presents;

“**Auditors**” means the auditors for the time being of the Issuer or, as the case may be, MBNA Corporation or, in the event of their being unable or unwilling promptly to carry out any action requested of them pursuant to the provisions of these presents, such other firm of accountants as may be nominated or approved by the Trustee for the purposes of these presents after consultation with the Issuer or, as the case may be, the Guarantor;

“**Calculation Agent**” means, in relation to all or any Series of the Notes, the person appointed as such from time to time pursuant to the provisions of the Agency Agreement or any Successor calculation agent in relation thereto;

“**Clearstream, Luxembourg**” means Clearstream Banking, société anonyme;

“**Conditions**” means, in relation to the Notes of any Series, the terms and conditions endorsed on or incorporated by reference into the Note or Notes constituting such Series, such terms and conditions being in or substantially in the form set out in the First Schedule or in such other form, having regard to the terms of issue of the Notes of the relevant Series, as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s) as modified and supplemented by the Pricing Supplement applicable to the Notes of the relevant Series, in each case as from time to time modified in accordance with the provisions of these presents;

“**Coupon**” means an interest coupon appertaining to a Definitive Note (other than a Zero Coupon Note), such coupon being:

- (i) if appertaining to a Fixed Rate Note, in the form or substantially in the form set out in Part V A of the Second Schedule or in such other form, having regard to the terms of issue of the Notes of the relevant Series, as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s); or
- (ii) if appertaining to a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note, in the form or substantially in the form set out in Part V B of the Second Schedule or in such other form, having regard to the terms of issue of the Notes of the relevant Series, as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s); or
- (iii) if appertaining to a Definitive Note which is neither a Fixed Rate Note, a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note, in such form as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s),

and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 10;

“**Couponholders**” means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders;

“**Dated Subordinated Note**” means a Note specified as such in the applicable Pricing Supplement;

“**Dealers**” means ABN AMRO Bank N.V., Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse First Boston (Europe) Limited, Deutsche Bank AG London, J.P. Morgan Securities Ltd., Lehman Brothers International (Europe), and WestLB AG and any other entity which the Issuer may appoint as a Dealer and notice of whose appointment has been given to the Agent and the Trustee by the Issuer in accordance with the provisions of the Programme Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Programme Agreement and notice of which termination has been given to the Agent and the Trustee by the Issuer in accordance with the provisions of the Programme Agreement and references to a “**relevant Dealer**” or “**relevant Dealer(s)**” mean, in relation to any Tranche or Series of Notes, the Dealer or Dealers with whom the Issuer has agreed the issue of the Notes of such Tranche or Series and “**Dealer**” means any one of them;

“**Definitive Note**” means a bearer Note in definitive form issued or, as the case may require to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and these presents in exchange for either a Temporary Global Note or part thereof or a Permanent Global Note (all as indicated in the applicable Pricing Supplement), such bearer Note in definitive form being in the form or substantially in the form set out in Part III of the Second Schedule with such modifications (if any) as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference (where applicable to this Trust Deed) as indicated in the applicable Pricing Supplement and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Pricing Supplement endorsed thereon or attached thereto and (except in the case of a Zero Coupon Note in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue;

“**Dual Currency Interest Note**” means a Note in respect of which payments of interest are made or to be made in such different currencies, and at rates of exchange calculated upon such basis or bases, as the Issuer and the relevant Dealer may agree as indicated in the applicable Pricing Supplement;

“**Early Redemption Amount**” has the meaning ascribed thereto in Condition 6(e);

“**Euroclear**” means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

“**Event of Default**” means any of the conditions, events or acts provided in Condition 9 to be events upon the happening of which the Notes of any Series would, subject only to notice by the Trustee as therein provided, become immediately due and repayable;

“**Extraordinary Resolution**” has the meaning ascribed thereto in paragraph 20 of the Third Schedule;

“**Fixed Rate Note**” means a Note on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as

may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement);

“**Floating Rate Note**” means a Note on which interest is calculated at a floating rate payable one-, two-, three-, six- or twelve-monthly or in respect of such other period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement);

“**Global Note**” means a Temporary Global Note and/or a Permanent Global Note, as the context may require;

“**Guarantee**” means the guarantee in the form set out in Clause 7(C)(5) of this Trust Deed;

“**indebtedness for moneys borrowed**” has the meaning ascribed thereto in Condition 9(a);

“**Index Linked Interest Note**” means a Note in respect of which the amount payable in respect of interest is calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Pricing Supplement);

“**Index Linked Note**” means an Index Linked Interest Note and/or an Index Linked Redemption Amount Note, as applicable;

“**Index Linked Redemption Amount Note**” means a Note in respect of which the amount payable in respect of principal is calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Pricing Supplement);

“**Interest Commencement Date**” means, in the case of interest-bearing Notes, the date specified in the applicable Pricing Supplement from (and including) which such Notes bear interest, which may or may not be the Issue Date;

“**Interest Payment Date**” means, in relation to any Floating Rate Note or Indexed Interest Note, either:

- the date which falls the number of months or other period specified as the “**Specified Period**” in the applicable Pricing Supplement after the preceding Interest Payment Date or the Interest Commencement Date (in the case of the first Interest Payment Date); or
- (i) such date or dates as are indicated in the applicable Pricing Supplement;

“**Issue Date**” means, in respect of any Note, the date of issue and purchase of such Note pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), being in the case of any Definitive Note represented initially by a Temporary Global Note or a Permanent Global Note, the same date as the date of issue of the Temporary Global Note or the Permanent Global Note which initially represented such Note;

“**Issue Price**” means the price, generally expressed as a percentage of the nominal amount of the Notes, at which the Notes will be issued;

“**Liability**” means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses;

“**London Business Day**” has the meaning set out in Condition 4(b)(v);

“**Maturity Date**” means the date on which it is expressed to be redeemable without regard to any early redemption provision contained in the Conditions;

“**month**” means calendar month;

“**Note**” means a note issued pursuant to the Programme and denominated in such currency or currencies as may be agreed between the Issuer and the relevant Dealer(s) which:

- (i) has such maturity as may be agreed between the Issuer and the relevant Dealer(s), subject to such minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant currency; and
- (ii) has such denomination as may be agreed between the Issuer and the relevant Dealer(s), subject to such minimum denomination as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant currency,

issued or to be issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and these presents and which shall, in the case of Notes, initially be represented by, and comprised in, either (a) a Temporary Global Note which may (in accordance with the terms of such Temporary Global Note) be exchanged for Definitive Notes or a Permanent Global Note, which Permanent Global Note may (in accordance with the terms of such Permanent Global Note) in turn be exchanged for Definitive Notes or (b) a Permanent Global Note which may (in accordance with the terms of such Permanent Global Note) be exchanged for Definitive Notes (all as indicated in the applicable Pricing Supplement) and includes any replacements for a Note issued pursuant to Condition 10;

“**Noteholders**” means the several persons who are for the time being holders of outstanding Notes save that, in respect of the Notes of any Series, for so long as such Notes or any part thereof are represented by a Global Note deposited with a common depositary for Euroclear and Clearstream, Luxembourg each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) as the holder of a particular nominal amount of the Notes of such Series shall be deemed to be the holder of such nominal amount of such Notes (and the holder of the relevant Global Note shall be deemed not to be the holder) for all purposes of these presents other than with respect to the payment of principal or interest on such nominal amount of such Notes the rights to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in such common depositary and for which purpose such common depositary shall be deemed to be the holder of such nominal amount of such Notes in accordance with and subject to its terms and the provisions of these presents and the expressions “**Noteholder**”, “**holder**” and “**holder of Notes**” and related expressions shall be construed accordingly;

“**notice**” means, in respect of a notice to be given to Noteholders, a notice validly given pursuant to Condition 13;

“**outstanding**” means, in relation to the Notes of all or any Series, all the Notes of such Series issued other than:

- (a) those Notes which have been redeemed pursuant to these presents;
- (b) those Notes in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Trustee or to the Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Noteholders in accordance with Condition 13) and remain available for payment against presentation of the relevant Notes and/or Receipts and/or Coupons;
- (c) those Notes which have been purchased and cancelled in accordance with Conditions 6(h) and 6(i);
- (d) those Notes which have become void under Condition 8;
- (e) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 10;
- (f) (for the purpose only of ascertaining the nominal amount of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 10; and
- (g) any Temporary Global Note to the extent that it shall have been exchanged for Definitive Notes or a Permanent Global Note and any Permanent Global Note to the extent that it shall have been exchanged for Definitive Notes in each case pursuant to its provisions, the provisions of these presents and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Notes of any Series;
- (ii) the determination of how many and which Notes of any Series are for the time being outstanding for the purposes of Clause 8(A), Conditions 9 and 14 and paragraphs 2, 5, 6 and 9 of the Third Schedule;
- (iii) any discretion, power or authority (whether contained in these presents or vested by operation of law) which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Notes of any Series; and
- (iv) the determination by the Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Notes of any Series,

those Notes of the relevant Series (if any) which are for the time being held by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor, in each case as



beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

“**Paying Agents**” means, in relation to all or any Series of the Notes, the several institutions (including, where the context permits, the Agent) at their respective specified offices initially appointed as paying agents in relation to such Notes by the Issuer and the Guarantor pursuant to the Agency Agreement and/or, if applicable, any Successor paying agents in relation thereto;

“**Permanent Global Note**” means a global note in the form or substantially in the form set out in Part II of the Second Schedule with such modifications (if any) as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s), together with the copy of the applicable Pricing Supplement annexed thereto, comprising some or all of the Notes of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and these presents;

“**Potential Event of Default**” means any condition, event or act which, with the lapse of time and/or the giving of notice and/or the issue of any certificate, would constitute an Event of Default;

“**Pricing Supplement**” has the meaning set out in the Programme Agreement;

“**Programme**” means the Euro Medium Term Note Programme established by, or otherwise contemplated in, the Programme Agreement;

“**Programme Agreement**” means the agreement of even date herewith between the Issuer, the Guarantor and the Dealers named therein concerning the purchase of Notes to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement;

“**Receipt**” means a receipt attached on issue to a Definitive Note redeemable in instalments for the payment of an instalment of principal, such receipt being in the form or substantially in the form set out in Part IV of the Second Schedule or in such other form as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s) and includes any replacements for Receipts issued pursuant to Condition 10;

“**Receipholders**” means the several persons who are for the time being holders of the Receipts;

“**Reference Banks**” means, in relation to the Notes of any relevant Series, the several banks initially appointed as reference banks and/or, if applicable, any Successor reference banks in relation thereto;

“**Relevant Date**” has the meaning set out in Condition 7;

“**repay**”, “**redeem**” and “**pay**” shall each include both the others and cognate expressions shall be construed accordingly;

“**Senior Creditors of the Guarantor**” has the meaning ascribed thereto in Condition 2(e);

“**Senior Creditors of the Issuer**” has the meaning ascribed thereto in Condition 2(d);

“**Senior Note**” means a Note specified as such in the applicable Pricing Supplement;

“**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions “**Notes of the relevant Series**”, “**holders of Notes of the relevant Series**” and related expressions shall be construed accordingly;

“**Specified Amount**” has the meaning ascribed thereto in Condition 9(a);

“**Stock Exchange**” means the Luxembourg Stock Exchange, or any other or further stock exchange(s) on which any Notes may from time to time be listed, and references in these presents to the “**relevant Stock Exchange**” shall, in relation to any Notes, be references to the Stock Exchange on which such Notes are, from time to time, or are intended to be, listed;

“**Subsidiary**” has the meaning ascribed thereto in Condition 9(a);

“**Successor**” means, in relation to the Agent, the other Paying Agents, the Reference Banks and the Calculation Agent, any successor to any one or more of them in relation to the Notes which shall become such pursuant to the provisions of these presents and/or the Agency Agreement (as the case may be) and/or such other or further agent, paying agents, reference banks and calculation agent (as the case may be) in relation to the Notes as may (with the prior approval of, and on terms previously approved by, the Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the former case being within the same city as those for which they are substituted) as may from time to time be nominated, in each case by the Issuer and the Guarantor and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Noteholders pursuant to Clause 13(xiii) in accordance with Condition 13;

“**Successor in Business**” means in relation to any relevant company any company which, as the result of any amalgamation, merger or reconstruction:

- (i) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by such relevant company immediately prior thereto; and
- (ii) carries on, as successor to such relevant company, the whole or substantially the whole of the business carried on by such relevant company immediately prior thereto;

“**Talonholders**” means the several persons who are for the time being holders of the Talons;

“**Talons**” means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Notes (other than the Zero Coupon Notes), such talons being in the form or substantially in the form set out in Part VI of the Second Schedule or in such other form as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 10;

“**Temporary Global Note**” means a temporary global note in the form or substantially in the form set out in Part I of the Second Schedule with such modifications (if any) as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s), together with the copy of the applicable Pricing Supplement annexed thereto, comprising some or all of the Notes of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and these presents;

“**these presents**” means this Trust Deed and the Schedules and any trust deed supplemental hereto and the Schedules (if any) thereto and the Notes, the Receipts, the Coupons, the Talons, the Conditions and, unless the context otherwise requires, the Pricing Supplements, all as from time to time modified in accordance with the provisions herein or therein contained;

“**Tranche**” means all Notes which are identical in all respects (including as to listing);

“**Trust Corporation**” means a corporation entitled by rules made under the Public Trustee Act 1906 of Great Britain or entitled pursuant to any other comparable legislation applicable to a trustee in any other jurisdiction to carry out the functions of a custodian trustee;

“**Trustee Acts**” means the Trustee Act 1925 and the Trustee Act 2000 of Great Britain;

“**Zero Coupon Note**” means a Note on which no interest is payable;

words denoting the singular shall include the plural and *vice versa*;

words denoting one gender only shall include the other genders; and

words denoting persons only shall include firms and corporations and *vice versa*.

- (B) (i) All references in these presents to principal and/or principal amount and/or interest in respect of the Notes or to any moneys payable by the Issuer under these presents shall, unless the context otherwise requires, be construed in accordance with Condition 5(f).
- (ii) All references in these presents to any statute or any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such modification or re-enactment.
- (iii) All references in these presents to guarantees or to an obligation being guaranteed shall be deemed to include respectively references to indemnities or to an indemnity being given in respect thereof.
- (iv) All references in these presents to any action, remedy or method of proceeding for the enforcement of the rights of creditors shall be deemed to include, in respect of any jurisdiction other than England, references to such action, remedy or method of proceeding for the enforcement of the rights of creditors available or appropriate in such jurisdiction as shall most nearly approximate to such action, remedy or method of proceeding described or referred to in these presents.

- (v) All references in these presents to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include references to any additional or alternative clearing system as is approved by the Issuer, the Agent and the Trustee or as otherwise specified in the applicable Pricing Supplement.
- (vi) Unless the context otherwise requires words or expressions used in these presents shall bear the same meanings as in the Companies Act 1985 of Great Britain.
- (vii) In this Trust Deed references to Schedules, Clauses, sub-clauses, paragraphs and sub-paragraphs shall be construed as references to the Schedules to this Trust Deed and to the Clauses, sub-clauses, paragraphs and sub-paragraphs of this Trust Deed respectively.
- (viii) In these presents tables of contents and Clause headings are included for ease of reference and shall not affect the construction of these presents.

- (C) Words and expressions defined in these presents or the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used herein unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and these presents, these presents shall prevail and, in the event of inconsistency between the Agency Agreement or these presents and the applicable Pricing Supplement, the applicable Pricing Supplement shall prevail.

- (D) All references in these presents to the “**relevant currency**” shall be construed as references to the currency in which payments in respect of the Notes and/or Receipts and/or Coupons of the relevant Series are to be made as indicated in the applicable Pricing Supplement.

- (E) All references in these presents to “**listing**” and “**listed**” shall include references to “**quotation**” and “**quoted**” respectively.

- (F) A person who is not a party to this Trust Deed or any Trust Deed supplemental hereto has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Trust Deed or any Trust Deed supplemental hereto, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

## 2. AMOUNT AND ISSUE OF THE NOTES

- (A) **Amount of the Notes, Pricing Supplements and Legal Opinions:**

THE Notes will be issued in Series in an aggregate nominal amount from time to time outstanding not exceeding the Programme Limit from time to time and for the purpose of determining such aggregate nominal amount Clause 3(5) of the Programme Agreement shall apply.

By not later than 3.00 p.m. (London time) on the London Business Day preceding each proposed Issue Date, the Issuer shall deliver or cause to be delivered to the Trustee a copy of the applicable Pricing Supplement in relation to the proposed issue and shall notify the Trustee in writing without delay of the relevant Issue Date and the nominal amount of the Notes to be issued. Upon the issue of the relevant Notes, such Notes shall become constituted by these presents without further formality.

Before the first issue of Notes occurring after each anniversary of this Trust Deed, the Issuer or, as the case may be, the Guarantor will procure that a further legal opinion or further legal opinions in such form and with such content as the Trustee may reasonably require from the legal advisers specified in the Programme Agreement is/are delivered to the Trustee. Whenever such a request is made with respect to any Notes to be issued, the receipt of such opinion(s) in a form satisfactory to the Trustee shall be a further condition precedent to the issue of those Notes.

**(B) Covenant to repay principal and to pay interest:**

The Issuer covenants with the Trustee that it will, as and when the Notes of any Series or any of them or any instalment of principal in respect thereof becomes due to be redeemed in accordance with the Conditions, unconditionally pay or procure to be paid to or to the order of the Trustee in the relevant currency in immediately available funds the nominal amount in respect of the Notes of such Series or the amount of such instalment becoming due for redemption on that date and (except in the case of Zero Coupon Notes) shall in the meantime and until redemption in full of the Notes of such Series (both before and after any judgment or other order of a court of competent jurisdiction) unconditionally pay or procure to be paid to or to the order of the Trustee as aforesaid interest (which shall accrue from day to day) on the nominal amount of the Notes outstanding of such Series at rates and/or in amounts calculated from time to time in accordance with, or specified in, and on the dates provided for in, the Conditions (subject to Clause 2(D)) PROVIDED THAT:

- (i) every payment of principal or interest or other sum due in respect of the Notes made to or to the order of the Agent in the manner provided in the Agency Agreement shall be in satisfaction *pro tanto* of the relative covenant by the Issuer in this Clause contained in relation to the Notes of such Series except to the extent that there is a default in the subsequent payment thereof in accordance with the Conditions to the relevant Noteholders, Receiptholders or Couponholders (as the case may be);
- (ii) in the case of any payment of principal made to the Trustee or the Agent after the due date or on or after accelerated maturity following an Event of Default interest shall continue to accrue on the nominal amount of the relevant Notes (except in the case of Zero Coupon Notes to which the provisions of Condition 6(j) shall apply) (both before and after any judgment or other order of a court of competent jurisdiction) at the rates aforesaid up to and including the date which the Trustee determines to be the date on and after which payment is to be made in respect thereof as stated in a notice given to the holders of such Notes (such date to be not later than 14 days after the day on which the whole of such principal amount, together with an amount equal to the interest which has accrued and is to accrue pursuant to this proviso up to and including that date, has been received by the Trustee or the Agent); and
- (iii) in any case where payment of the whole or any part of the principal amount of any Note is improperly withheld or refused upon due presentation thereof (other than in circumstances contemplated by (ii) above) interest shall accrue on the nominal amount of such Note (except in the case of Zero Coupon Notes to which the provisions of Condition 6(j) shall apply) payment of which has been so withheld or refused (both before and after any judgment or other order of a court of competent jurisdiction) at the rates aforesaid from and including the date of such withholding or refusal up to and including the date on which notice is given to the relevant Noteholder (either individually or in accordance with Condition 13) that the full

amount (including interest as aforesaid) in the relevant currency in respect of such Note is available for payment.

The Trustee will hold the benefit of this covenant on trust for the Noteholders, the Receiptholders and the Couponholders and itself in accordance with these presents.

**(C) Trustee's requirements regarding Paying Agents etc:**

At any time after an Event of Default or a Potential Event of Default shall have occurred, the Trustee may:

- (i) by notice in writing to the Issuer, the Guarantor, the Agent and the other Paying Agents require the Agent and the other Paying Agents pursuant to the Agency Agreement:
  - (a) to act thereafter as Agent and other Paying Agents respectively of the Trustee in relation to payments to be made by or on behalf of the Trustee under the terms of these presents *mutatis mutandis* on the terms provided in the Agency Agreement (save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Agent and the other Paying Agents shall be limited to the amounts for the time being held by the Trustee on the trusts of these presents relating to the Notes of the relevant Series and the relative Receipts and Coupons and available for such purpose) and thereafter to hold all Notes, Receipts and Coupons and all sums, documents and records held by them in respect of Notes, Receipts and Coupons on behalf of the Trustee; or
  - (b) to deliver up all Notes, Receipts and Coupons and all sums, documents and records held by them in respect of Notes, Receipts and Coupons, in each case held by them in their capacity as Agent or other Paying Agent, to the Trustee or as the Trustee shall direct in such notice provided that such notice shall be deemed not to apply to any documents or records which the Agent or other Paying Agent is obliged not to release by any law or regulation; and
- (ii) by notice in writing to the Issuer and the Guarantor require each of them to make all subsequent payments in respect of the Notes, Receipts and Coupons to or to the order of the Trustee and not to the Agent and, with effect from the issue of any such notice to the Issuer and the Guarantor and until such notice is withdrawn, proviso (i) to sub-clause (B) of this Clause shall cease to have effect.

- If the Floating Rate Notes or Index Linked Interest Notes of any Series become immediately due and repayable under Condition 9 the rate and/or amount of interest payable in respect of them will be calculated at the same intervals as if such Notes had not become due and repayable, the first of which will commence on the expiry of the Interest Period during which the Notes of the relevant Series become so due and repayable *mutatis mutandis* in accordance with the provisions of Condition 9 except that the rates of interest need not be published.
- (D)**

**(E) Currency of payments:**

All payments in respect of, under and in connection with these presents and the Notes of any Series to the relevant Noteholders, Receiptholders and Couponholders shall be made in the relevant currency.

**(F) Further Notes:**

The Issuer shall be at liberty from time to time (but subject always to the provisions of these presents) without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further Notes ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Notes) and so that the same shall be consolidated and form a single series with the outstanding Notes of a particular Series.

**(G) Separate Series:**

The Notes of each Series shall form a separate Series of Notes and accordingly, unless for any purpose the Trustee in its absolute discretion shall otherwise determine, the provisions of this Clause and of Clauses 3 to 20 (both inclusive), 21(B) and the Third Schedule shall apply *mutatis mutandis* separately and independently to the Notes of each Series and in such Clauses and Schedule the expressions “Notes”, “Noteholders”, “Receipts”, “Receiptholders”, “Coupons”, “Couponholders” and “Talons” and “Talonholders” shall be construed accordingly.

**3. FORMS OF THE NOTES****(A) Global Notes:**

- (i) THE Notes of each Tranche will initially be represented by either:
  - (a) a single Temporary Global Note which shall be exchangeable for either Definitive Notes together with, where applicable, Receipts and (except in the case of Zero Coupon Notes) Coupons and, where applicable, Talons attached or a Permanent Global Note, in each case in accordance with the provisions of such Temporary Global Note. Each Permanent Global Note shall be exchangeable for Definitive Notes together with, where applicable, Receipts and (except in the case of Zero Coupon Notes) Coupons and, where applicable, Talons attached, in accordance with the provisions of such Permanent Global Note; or
  - (b) (in case the Notes in a tranche have a maturity date of 183 days or less from their issue date and face or principal amount in excess of U.S.\$500,000 and only in this case), a single Permanent Global Note which shall be exchangeable for Definitive Notes together with, where applicable, Receipts and (except in the case of Zero Coupon Notes) Coupons and, where applicable, Talons attached in accordance with provisions of such Permanent Global Note.

All Global Notes shall be prepared, completed and delivered to a common depository for Euroclear and Clearstream, Luxembourg in accordance with the provisions of the Programme Agreement or to another appropriate depository in accordance with any other agreement between the Issuer and the relevant Dealer(s) and, in each case, the Agency Agreement.

- (ii) Each Temporary Global Note shall be printed or typed in the form or substantially in the form set out in Part I of the Second Schedule and may be a facsimile. Each

Temporary Global Note shall have annexed thereto a copy of the applicable Pricing Supplement and shall be signed manually or in facsimile by a person duly authorised by the Issuer on behalf of the Issuer and shall be authenticated by or on behalf of the Agent. Each Temporary Global Note so executed and authenticated shall be a binding and valid obligation of the Issuer and title thereto shall pass by delivery.

- (iii) Each Permanent Global Note shall be printed or typed in the form or substantially in the form set out in Part II of the Second Schedule and may be a facsimile. Each Permanent Global Note shall have annexed thereto a copy of the applicable Pricing Supplement and shall be signed manually or in facsimile by a person duly authorised by the Issuer on behalf of the Issuer and shall be authenticated by or on behalf of the Agent. Each Permanent Global Note so executed and authenticated shall be a binding and valid obligation of the Issuer and title thereto shall pass by delivery.

**(B) Definitive Notes:**

- (i) The Definitive Notes, the Receipts, the Coupons and the Talons shall be payable to bearer in the respective forms or substantially in the respective forms set out in Parts III, IV, V and VI, respectively, of the Second Schedule. The Definitive Notes, the Receipts, the Coupons and the Talons shall be serially numbered and, if listed or quoted, shall be security printed in accordance with the requirements (if any) from time to time of the relevant Stock Exchange and the relevant Conditions shall be incorporated by reference (where applicable to these presents) into such Definitive Notes if permitted by the relevant Stock Exchange (if any), or, if not so permitted, the Definitive Notes shall be endorsed with or have attached thereto the relevant Conditions, and, in either such case, the Definitive Notes shall have endorsed thereon or attached thereto a copy of the applicable Pricing Supplement (or the relevant provisions thereof). Title to the Definitive Notes, the Receipts, the Coupons and the Talons shall pass by delivery.

- (ii) The Definitive Notes, the Receipts, the Coupons and the Talons shall be signed manually or in facsimile by two Directors of the Issuer or two duly authorised officers of the Issuer on behalf of the Issuer and, in the case of Definitive Notes, shall be authenticated by or on behalf of the Agent. The Definitive Notes, the Receipts, the Coupons and the Talons so executed and, in the case of Definitive Notes, authenticated shall be binding and valid obligations of the Issuer. No Definitive Note and none of the Receipts, Coupons or Talons appertaining to such Definitive Note shall be binding or valid until such Definitive Notes, Receipts, Coupons or Talons shall have been executed and, in the case of Definitive Notes, authenticated as aforesaid.

**(C) Facsimile signatures:**

The Issuer may use the facsimile signature of any person who at the date such signature is affixed to a Global Note, Definitive Note, Receipt, Coupon or Talon is duly authorised by the Issuer or is a Director of the Issuer notwithstanding that at the time of issue of such Note he may have ceased for any reason to be so authorised or to hold such office.

**(D) Persons to be treated as Noteholders:**

Except as ordered by a court of competent jurisdiction or as required by law, the Issuer, the Guarantor, the Trustee, the Agent and the other Paying Agents (notwithstanding any notice to



the contrary and whether or not it is overdue and notwithstanding any notation of ownership or writing thereon or notice of any previous loss or theft thereof) may (i) for the purpose of making payment thereon or on account thereof deem and treat the bearer of any Global Note, Definitive Note, Receipt, Coupon or Talon as the absolute owner thereof and of all rights thereunder free from all encumbrances, and shall not be required to obtain proof of such ownership or as to the identity of the bearer, and (ii) for all other purposes deem and treat:

- (a) the bearer of any Definitive Note, Receipt, Coupon or Talon; and
- (b) each person for the time being shown in the records of Euroclear or Clearstream, Luxembourg or such other additional or alternative clearing system approved by the Issuer, the Agent and the Trustee, as having a particular nominal amount of Notes credited to his securities account,

as the absolute owner thereof free from all encumbrances and shall not be required to obtain proof of such ownership or as to the identity of the bearer of any Global Note, Definitive Note, Receipt, Coupon or Talon.

**(E) Certificates of Euroclear and Clearstream, Luxembourg:**

The Trustee may call for and, except in the case of manifest error, shall be at liberty to accept and place full reliance on as sufficient evidence thereof a letter of confirmation issued on behalf of Euroclear or Clearstream, Luxembourg or any form of record made by any of them or such other evidence and/or information and/or certification as it shall, in its absolute discretion, think fit to the effect that at any particular time or throughout any particular period any particular person is, was, or will be, shown in its records as the holder of a particular nominal amount of Notes represented by a Global Note and if it does so rely, such letter of confirmation, form of record, evidence, information or certification shall be conclusive and binding on all concerned. Except in the case of manifest error as aforesaid, the Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Euroclear or Clearstream, Luxembourg and subsequently found to be forged or not authentic.

**4. FEES, DUTIES AND TAXES**

THE Issuer will pay any stamp and other duties and taxes payable (i) in the United Kingdom, Belgium or Luxembourg on or in connection with the execution and delivery of these presents or the constitution and original issue of the Notes, the Receipts and the Coupons and (ii) in any jurisdiction on or in connection with any action taken by or on behalf of the Trustee or (where permitted under these presents so to do) any Noteholder, Receiptholder or Couponholder to enforce the provisions of these presents.

**5. COVENANT OF COMPLIANCE**

EACH of the Issuer and the Guarantor severally covenants with the Trustee that it will comply with and perform and observe all the provisions of these presents which are expressed to be binding on it. The Notes, the Receipts and the Coupons shall be held subject to the provisions contained in these presents and the Conditions shall be binding on the Issuer, the Guarantor, the Trustee, the Noteholders, the Receiptholders and the Couponholders and all persons claiming through or under them. The Trustee shall be entitled to enforce the obligations of the Issuer and the Guarantor under the Notes, the Receipts, the Coupons and the Conditions in the manner therein provided as if the same were set out and

contained in this Trust Deed, which shall be read and construed as one document with the Notes, the Receipts and the Coupons. The Trustee shall hold the benefit of this covenant upon trust for itself and the Noteholders, the Receiptholders and the Couponholders according to its and their respective interests.

## 6. CANCELLATION OF NOTES AND RECORDS

(A) THE Issuer shall procure by the appointment of the Agent that all Notes issued by it (i) redeemed or (ii) purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor and surrendered for cancellation or (iii) which, being mutilated or defaced, have been surrendered and replaced pursuant to Condition 10 (together in each case with all unmatured Receipts and Coupons attached thereto or delivered therewith) and, in the case of Definitive Notes, all relative Receipts and Coupons paid in accordance with the relevant Conditions or which, being mutilated or defaced, have been surrendered and replaced pursuant to Condition 10 shall forthwith be cancelled by or on behalf of the Issuer and a certificate stating:

- (a) the aggregate nominal amount of Notes which have been redeemed and the amounts paid in respect thereof and the aggregate amounts in respect of Receipts and Coupons which have been paid;
- (b) the serial numbers of such Notes in definitive form and Receipts;
- (c) the total numbers (where applicable, of each denomination) by maturity date of such Receipts and Coupons;
- (d) the aggregate amount of interest paid (and the due dates of such payments) on Global Notes;

(e) the aggregate nominal amount of Notes (if any) which have been purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor and cancelled and the serial numbers of such Notes in definitive form and the total number (where applicable, of each denomination) by maturity date of the Receipts, Coupons and Talons attached thereto or surrendered therewith;

(f) the aggregate nominal amounts of Notes and Receipts and the aggregate amounts in respect of Coupons which have been so surrendered and replaced and the serial numbers of such Notes in definitive form and the total number (where applicable, of each denomination) by maturity date of such Coupons and Talons;

(g) the total number (where applicable, of each denomination) by maturity date of the unmatured Coupons missing from Definitive Notes bearing interest at a fixed rate which have been redeemed or surrendered and replaced and the serial numbers of the Definitive Notes to which such missing unmatured Coupons appertained; and

(h) the total number (where applicable, of each denomination) by maturity date of Talons which have been exchanged for further Coupons

shall be given to the Trustee by or on behalf of the Issuer as soon as possible and in any event within four months after the date of such redemption, purchase, payment, exchange or replacement (as the case may be). The Trustee may accept such certificate as conclusive evidence of redemption, purchase, exchange or replacement *pro tanto* of the Notes or

payment of interest thereon or exchange of the relative Talons respectively and of cancellation of the relative Notes and Coupons.

- (B) The Issuer shall procure (i) that the Agent shall keep a full and complete record of all Notes, Receipts, Coupons and Talons issued by it (other than serial numbers of Receipts and Coupons) and of their redemption or purchase and cancellation and of all replacement notes, receipts, coupons or talons issued in substitution for lost, stolen, mutilated, defaced or destroyed Notes, Receipts, Coupons or Talons and (ii) that such records and Coupons (if any) shall be made available to the Trustee at all reasonable times during normal business hours.

## 7. STATUS OF SENIOR NOTES, STATUS AND SUBORDINATION OF DATED SUBORDINATED NOTES AND GUARANTEE

### (A) *Status of Senior Notes and the relative Receipts and Coupons*

IF the Notes are specified as Senior Notes in the applicable Pricing Supplement, the Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### (B) *Status and Subordination of Dated Subordinated Notes*

#### (1) *Status of Dated Subordinated Notes and the relative Receipts and Coupons*

If the Notes are specified as Dated Subordinated Notes in the applicable Pricing Supplement, the Notes and any relative Receipts and Coupons constitute unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and the claims of the Noteholders, Receiptholders and Couponholders in respect thereof will, in the event of the winding up of the Issuer, be subordinated in right of payment in the manner provided below to the claims of all Senior Creditors of the Issuer.

#### (2) *Subordination*

- (a) In the event of the winding up of the Issuer, all amounts in respect of the Notes and the relative Receipts and Coupons paid to the Trustee by the liquidator of the Issuer in the winding up of the Issuer (including for the avoidance of doubt pursuant to Clause 20) shall be held by the Trustee upon trust;
- (i) first for payment or satisfaction of all amounts then due and unpaid under Clauses 14 and/or 15(J) to the Trustee and/or any Appointee;
  - (ii) secondly for payment of claims of all Senior Creditors of the Issuer in the winding up of the Issuer to the extent that such claims are admitted to proof the winding up (not having been satisfied out of the other resources of the Issuer) excluding interest accruing after commencement of the winding up; and
  - (iii) thirdly as to the balance (if any) for payment *pari passu* and rateably of the amounts owing on or in respect of the Notes and the relative Receipts and Coupons.

- The trust secondly mentioned in paragraph (a) of this sub-clause (2) may be performed by the Trustee paying over to the liquidator for the time being in the winding up of the Issuer the amounts received by the Trustee as aforesaid (less any amounts thereof applied in the implementation of the trust first mentioned in paragraph (a) of this sub-clause (2)) on terms that such liquidator shall distribute the same accordingly and the receipt of such liquidator for the same shall be a good discharge to the Trustee for the performance by it of the trust secondly mentioned in paragraph (a) of this sub-clause (2).
- (b) The Trustee shall be entitled and it is hereby authorised to call for and to accept as conclusive evidence thereof a certificate from the liquidator for the time being of the Issuer as to:
- (c) (i) the amount of the claims of the Senior Creditors of the Issuer referred to in paragraph (a) of this sub-clause (2); and
- (ii) the persons entitled thereto and their respective entitlements.
- (d) The perpetuity period for the purposes of the trusts mentioned in this sub-clause (2) shall be 80 years from the date of this Trust Deed.

(3) *Set-off*

In relation to Dated Subordinated Notes of the Issuer subject to applicable law, no Noteholder, Receiptholder or Couponholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or any relative Receipts or Coupons and each Noteholder, Receiptholder and Couponholder shall, by virtue of his subscription, purchase or holding of any Dated Subordinated Note, Receipt or Coupon be deemed to have waived all such rights of set-off.

(C) *Status of Guarantee and Guarantee*

(1) *Status of the Guarantee in respect of the Senior Notes*

The obligations of the Guarantor under the Guarantee in respect of the Senior Notes and the relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and (save for deposits and certain other obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

(2) *Status of the Guarantee in respect of the Dated Subordinated Notes*

The obligations of the Guarantor under the Guarantee in respect of the Dated Subordinated Notes and the relative Receipts and Coupons constitute unsecured obligations of the Guarantor and the claims of the Noteholders, the Receiptholders and the Couponholders pursuant thereto will, in the event of the winding up of the Guarantor, be subordinated in right of payment in the manner provided in this Trust Deed to the claims of all Senior Creditors of the Guarantor.

(3) *Subordination of Guarantee in respect of the Dated Subordinated Notes*

In the event of the receivership or winding up of the Guarantor, all amounts in respect of the Notes and the relative Receipts and

- (a) Coupons paid to the Trustee by the receiver or, as the case may be, the liquidator of the Guarantor in the winding up of the Guarantor (including for the avoidance of doubt pursuant to Clause 20) shall be held by the Trustee upon trust:
- (i) first for payment or satisfaction of all amounts then due and unpaid under Clauses 14 and/or 15(J) to the Trustee and/or any Appointee;
  - (ii) secondly for payment of claims of all Senior Creditors of the Guarantor in the receivership or, as the case may be, winding up of the Guarantor to the extent that such claims are admitted to proof in the receivership or, as the case may be, winding up (not having been satisfied out of the other resources of the Guarantor) excluding interest accruing after commencement of the receivership or, as the case may be, winding up; and
  - (iii) thirdly as to the balance (if any) for payment *pari passu* and rateably of the amounts owing on or in respect of the Notes and the relative Receipts and Coupons.

The trust secondly mentioned in paragraph (a) of this sub-clause (3) may be performed by the Trustee paying over to the receiver or, as the case may be, the liquidator for the time being in the receivership or, as the case may be, the winding up of the Guarantor

- (b) the amounts received by the Trustee as aforesaid (less any amounts thereof applied in the implementation of the trust first mentioned in paragraph (a) of this sub-clause (3)) on terms that such receiver or, as the case may be, the liquidator shall distribute the same accordingly and the receipt of such receiver or, as the case may be, the liquidator for the same shall be a good discharge to the Trustee for the performance by it of the trust secondly mentioned in paragraph (a) of this sub-clause (3).
- (c) The Trustee shall be entitled and it is hereby authorised to call for and to accept as conclusive evidence thereof a certificate from the receiver or, as the case may be, the liquidator for the time being of the Guarantor as to:
- (i) the amount of the claims of the Senior Creditors of the Guarantor referred to in paragraph (a) of this sub-clause (3); and
  - (ii) the persons entitled thereto and their respective obligations.
- (d) The perpetuity period for the purposes of the trusts mentioned in this sub-clause (3) shall be 80 years from the date of this Trust Deed.

(4) *Set-off*

In relation to Dated Subordinated Notes guaranteed by the Guarantor, subject to applicable law, no Noteholder, Receiptholder or Couponholder may exercise or claim any rights of set-off in respect of any amount owed to it by the Guarantor arising under or in connection with the Guarantee and each Noteholder, Receiptholder and Couponholder shall, by virtue of his

subscription, purchase or holding of any Dated Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of set off.

(5) *Guarantee*

- (i) The Guarantor hereby irrevocably and unconditionally guarantees to the Trustee the due and punctual payment in accordance with the provisions of these presents of all amounts payable by the Issuer under or pursuant to these presents.

- (ii) If the Issuer fails for any reason whatsoever punctually to pay any amount payable by the Issuer under or pursuant to these presents, the Guarantor shall cause each and every such payment to be made as if the Guarantor instead of the Issuer were expressed to be the primary obligor in respect of such amounts under these presents and not merely as surety (but without affecting the Issuer's obligations) to the intent that the holder of the relevant Note, Receipt or Coupon or the Trustee (as the case may be) shall receive the same amounts in respect of principal, interest or such other amount as would have been receivable had such payments been made by the Issuer.

- (iii) If any payment received by the Trustee or any Noteholder or Receiptholder or Couponholder under the provisions of these presents shall (whether on the subsequent bankruptcy, insolvency or corporate reorganisation of the Guarantor or, without limitation, on any other event) be avoided or set aside for any reason, such payment shall not be considered as discharging or diminishing the liability of the Guarantor and this guarantee shall continue to apply as if such payment had at all times remained owing by the Issuer and the Guarantor shall indemnify the Trustee and the Noteholders and/or Receiptholders and/or Couponholders (as the case may be) in respect thereof PROVIDED THAT the obligations of the Guarantor under this sub-clause shall, as regards each payment made to the Trustee or any Noteholder or Receiptholder or Couponholder which is avoided or set aside, be contingent upon such payment being reimbursed to the Issuer or other persons entitled through the Issuer.

- (iv) The Guarantor hereby agrees that its obligations under this Clause shall be unconditional and that the Guarantor shall be fully liable irrespective of the validity, regularity, legality or enforceability against the Issuer of, or of any defence or counter-claim whatsoever available to the Issuer in relation to, its obligations under these presents, whether or not any action has been taken to enforce the same or any judgment obtained against the Issuer, whether or not any of the other provisions of these presents have been modified, whether or not any time, indulgence, waiver, authorisation or consent has been granted to the Issuer by or on behalf of the Noteholders or the Receiptholders or the Couponholders or the Trustee, whether or not any determination has been made by the Trustee pursuant to Clause 18(A), whether or not there have been any dealings or transactions between the Issuer, any of the Noteholders or Receiptholders or Couponholders or the Trustee, whether or not the Issuer has been dissolved, liquidated, merged, consolidated, bankrupted or has changed its status, functions, control or ownership, whether or not the Issuer has been prevented from making payment by foreign exchange provisions applicable at its place of registration or incorporation and whether or not any other circumstances have occurred which might otherwise constitute a legal or equitable discharge of or defence to a guarantor. Accordingly the validity of this guarantee shall not be affected by reason of any invalidity, irregularity, illegality or unenforceability of all or any of the obligations of the Issuer under these presents and this guarantee shall

not be discharged nor shall the liability of the Guarantor under these presents be affected by any act, thing or omission or means whatever whereby its liability would not have been discharged if it had been the principal debtor.

- (v) Without prejudice to the provisions of Clause 8(A), the Trustee may determine from time to time whether or not it will enforce this guarantee which it may do without making any demand of or taking any proceedings against the Issuer and may from time to time make any arrangement or compromise with the Guarantor in relation to this guarantee which the Trustee may consider expedient in the interests of the Noteholders.

- (vi) The Guarantor waives diligence, presentment, demand of payment, filing of claims with a court in the event of dissolution, liquidation, merger or bankruptcy of the Issuer, any right to require a proceeding first against the Issuer, protest or notice with respect to these presents or the indebtedness evidenced thereby and all demands whatsoever and covenants that this guarantee shall be a continuing guarantee, shall extend to the ultimate balance of all sums payable and obligations owed by the Issuer under these presents, shall not be discharged except by complete performance of the obligations in these presents and is additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantor or otherwise.

- (vii) If any moneys shall become payable by the Guarantor under this guarantee the Guarantor shall not, so long as the same remain unpaid, without the prior written consent of the Trustee:

- (a) in respect of any amounts paid by it under this guarantee, exercise any rights of subrogation or contribution or, without limitation, any other right or remedy which may accrue to it in respect of or as a result of any such payment; or
- (b) in respect of any other moneys for the time being due to the Guarantor by the Issuer, claim payment thereof or exercise any other right or remedy;

(including in either case claiming the benefit of any security or right of set-off or, on the liquidation of the Issuer, proving in competition with the Trustee). If, notwithstanding the foregoing, upon the bankruptcy, insolvency or liquidation of the Issuer, any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities, shall be received by the Guarantor before payment in full of all amounts payable under these presents shall have been made to the Noteholders, the Receiptholders, the Couponholders and the Trustee, such payment or distribution shall be received by the Guarantor on trust to pay the same over immediately to the Trustee for application in or towards the payment of all sums due and unpaid under these presents in accordance with Clause 9.

## 8. NON-PAYMENT

- (A) THE Trustee's rights and duties, and the rights of Noteholders, Receiptholders and Couponholders, as to the recovery of amounts owing on the Notes are set out in Condition 9.
- (B) Should the Trustee (or any Noteholder, Receiptholder or Couponholder where entitled under these presents so to do) take any legal proceedings against the Issuer and/or the Guarantor:

(a) proof therein that, as regards any specified Note, default has been made by the Issuer or, as the case may be, the Guarantor in paying any principal and/or (where the same is not paid against presentation of a Coupon) interest due to the relative Noteholder shall (unless the contrary be proved) be sufficient evidence that like default has been made as regards all other Notes in respect of which a corresponding payment is then due; and

(b) proof therein that, as regards any specified Coupon, default has been made by the Issuer or, as the case may be, the Guarantor in paying any interest due to the relative Couponholder shall (unless the contrary be proved) be sufficient evidence that like default has been made as regards all other Coupons in respect of which a corresponding payment is then due;

and for the purposes of (a) and (b) above a payment shall be a “corresponding” payment notwithstanding that it is due in respect of a Note of a different denomination from that in respect of the above specified Note or specified Coupon.

## 9. APPLICATION OF MONEYS

ALL moneys received by the Trustee under these presents shall, unless and to the extent attributable in the opinion of the Trustee to a particular Series of the Notes, be apportioned *pari passu* and rateably between each Series of the Notes, and all moneys received by the Trustee under these presents to the extent attributable in the opinion of the Trustee to a particular Series of the Notes or which are apportioned to such Series as aforesaid (including any moneys which represent principal or interest in respect of Notes, Receipts or Coupons which have become void under Condition 8) shall be held by the Trustee upon trust to apply them (subject to Clause 11 and, in the case of Dated Subordinated Notes only, Clauses 7(B)(2) and 7(C)(3)):

FIRST in payment or satisfaction of all amounts then due and unpaid under Clauses 14 and/or 15(J) to the Trustee and/or any Appointee;

SECONDLY in or towards payment *pari passu* and rateably of all principal and interest then due and unpaid in respect of the Notes of that Series;

THIRDLY in or towards payment *pari passu* and rateably of all principal and interest then due and unpaid in respect of the Notes of each other Series; and

FOURTHLY in payment of the balance (if any) to the Issuer or, as the case may be, the Guarantor (without prejudice to, or liability in respect of, any question as to how such payment to the Issuer or, as the case may be, the Guarantor shall be dealt with as between the Issuer or, as the case may be, the Guarantor and any other person).

Without prejudice to the provisions of this Clause, if the Trustee shall hold any moneys which represent principal or interest in respect of Notes, Receipts or Coupons which have become void under Condition 8, the Trustee shall (subject to payment, or provision for the payment or satisfaction, of all amounts then due and unpaid under Clauses 14 and/or 15(J) to the Trustee and/or any Appointee) pay the same to the Issuer or, as the case may be, the Guarantor.



## 10. NOTICE OF PAYMENTS

THE Trustee shall give notice to the relevant Noteholders in accordance with Condition 13 of the day fixed for any payment to them under Clause 9. Such payment may be made in accordance with Condition 5 and any payment so made shall be a good discharge to the Trustee.

## 11. INVESTMENT BY TRUSTEE

- (A) IF the amount of the moneys at any time available for the payment of principal and interest in respect of the Notes issued by the Issuer under Clause 9 shall be less than 10 per cent. of the nominal amount of the Notes issued by the Issuer then outstanding the Trustee may at its discretion invest such moneys in some or one of the investments authorised below. The Trustee at its discretion may vary such investments and may accumulate such investments and the resulting income until the accumulations, together with any other funds for the time being under the control of the Trustee and available for such purpose, amount to at least 10 per cent. of the nominal amount of the Notes issued by the Issuer then outstanding and then such accumulations and funds shall be applied under Clause 9.

- (B) Any moneys which under the trusts of these presents ought to or may be invested by the Trustee may be invested in the name or under the control of the Trustee in any investments for the time being authorised by law for the investment by trustees of trust moneys or in any other investments whether similar to the aforesaid or not which may be selected by the Trustee or by placing the same on deposit in the name or under the control of the Trustee at such bank or other financial institution and in such currency as the Trustee may think fit. If that bank or institution is the Trustee or a subsidiary, holding or associated company of the Trustee, it need only account for an amount of interest equal to the amount of interest which would, at then current rates, be payable by it on such a deposit to an independent customer. The Trustee may at any time vary any such investments for or into other investments or convert any moneys so deposited into any other currency and shall not be responsible for any loss resulting from any such investments or deposits, whether due to depreciation in value, fluctuations in exchange rates or otherwise.

## 12. PARTIAL PAYMENTS

UPON any payment under Clause 9 (other than payment in full against surrender of a Note, Receipt or Coupon) the Note, Receipt or Coupon in respect of which such payment is made shall be produced to the Trustee or the Paying Agent by or through whom such payment is made and the Trustee shall or shall cause the Paying Agent to enface thereon a memorandum of the amount and the date of payment but the Trustee may in any particular case dispense with such production and enfacement upon such indemnity being given as it shall think sufficient.

## 13. COVENANTS

- (A) SO long as any of the Notes or the relative Receipts or Coupons remains outstanding, each of the Issuer and the Guarantor severally covenants with the Trustee that it shall:
- (i) give or procure to be given to the Trustee such information and evidence (other than financial statements which are generally publicly available by electronic means) as it shall reasonably require and in such form as it shall reasonably require (including without limitation the procurement by the Issuer or the Guarantor (as the case may

be) of all such certificates called for by the Trustee pursuant to Clause 15(C)) for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under these presents or by operation of law;

- (ii) cause to be prepared and certified by the Auditors in respect of each financial accounting period financial statements in relation to the Issuer or MBNA Corporation (as the case may be) in such form as will comply with all relevant legal requirements and all requirements for the time being of the relevant Stock Exchange;

- (iii) at all times keep proper books of account and procure that the Guarantor's Subsidiaries keep proper books of account and at any time after the occurrence of an Event of Default or potential Event of Default so far as permitted by applicable law allow the Trustee and any person appointed by the Trustee to whom the Issuer or, as the case may be, the Guarantor shall have no reasonable objection free access to such books of account of the Issuer or the Guarantor at all reasonable times during normal business hours;

- (iv) so far as is permitted by applicable law, send to the Trustee (in addition to any copies to which it may be entitled as a holder of any securities of the Issuer or the Guarantor) two copies of every balance sheet, profit and loss account, report and notice of general meeting and every other document (other than financial statements which are generally publicly available by electronic means) which the Issuer or, as the case may be, the Guarantor believes to be material to the interests of the Noteholders issued or sent to its shareholders, in their capacity as such, together with any of the foregoing, and every document (other than financial statements which are generally publicly available by electronic means) which the Issuer or, as the case may be, the Guarantor believes to be material to the interests of the Noteholders issued or sent to holders of securities other than its shareholders (including the Noteholders), in their capacity as such, as soon as practicable after the issue or publication thereof in any event, not more than 180 days after issue or publication;

- (v) forthwith upon becoming aware thereof give notice in writing to the Trustee of the occurrence of any Event of Default or any Potential Event of Default;

- (vi) give to the Trustee (a) within seven days after demand by the Trustee therefor and (b) (without the necessity for any such demand) as soon as reasonably practicable after the publication of the audited financial statements of the Issuer and the unaudited financial statements of the Guarantor (as the case may be) in respect of each financial period commencing with the financial period ending on 31st December, 2002 and in any event not later than 180 days after the end of each such financial period a certificate of each of the Issuer and the Guarantor signed respectively by two Directors of the Issuer or two authorised officers of the Issuer and two Directors of the Guarantor or two authorised officers of the Guarantor to the effect that to the best of their knowledge, information and belief (aa) as at a date not more than seven days before delivering such certificate (the "**certification date**") there did not exist and had not existed since the certification date of the previous certificate (or in the case of the first such certificate the date hereof) any Event of Default or any Potential Event of Default (or if such exists or existed specifying the same);

- (vii) at all times execute and do all such further documents, acts and things as may be necessary at any time or times in the reasonable opinion of the Trustee to give effect to these presents;
- (viii) at all relevant times maintain an Agent, Reference Banks and other Paying Agents in accordance with the Conditions;
- (ix) procure the Agent to notify the Trustee forthwith in the event that the Agent does not, on or before the due date for any payment in respect of the Notes or any of them or any of the Receipts or the Coupons, receive unconditionally pursuant to the Agency Agreement payment of the full amount in the relevant currency of the moneys payable on such due date on all such Notes, Receipts or Coupons as the case may be;
- (x) in the event of the unconditional payment to the Agent of any sum due in respect of the Notes or any of them or any of the Receipts or the Coupons being made after the due date for payment thereof forthwith give or procure to be given notice to the relevant Holders in accordance with Condition 13 that such payment has been made;
- (xi) if the applicable Pricing Supplement indicates that the Notes are listed, use all reasonable endeavours to maintain the listing of the Notes on the relevant Stock Exchange or, if it is unable to do so having used all reasonable endeavours, use all reasonable endeavours to obtain and maintain a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets as the Issuer and the Guarantor may (with the prior approval of the Trustee) decide and shall also upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to this Trust Deed to effect such consequential amendments to these presents as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market;
- (xii) give notice to the Noteholders in accordance with Condition 13 of any appointment, resignation or removal of any Agent, Reference Bank or other Paying Agent (other than the appointment of the initial Agent, Reference Banks or other Paying Agents) after having obtained the prior written approval of the Trustee thereto or any change of any Paying Agent's specified office and (except as provided by the Agent Bank Agreement or the Agency Agreement or the Conditions) at least 30 days prior to such event taking effect; PROVIDED ALWAYS THAT so long as any of the Notes remains outstanding in the case of the termination of the appointment of the Agent no such termination shall take effect until a new Agent (as the case may be) has been appointed on terms previously approved in writing by the Trustee;
- (xiii) obtain the prior written approval of the Trustee to, and promptly give to the Trustee two copies of, the form of every notice given to the Noteholders in accordance with Condition 13 (such approval, unless so expressed, not to constitute approval for the purposes of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom (the "FSMA") of a communication within the meaning of section 21 of the FSMA);
- (xiv) if payments of principal or interest in respect of the Notes or the relative Receipts or Coupons by the Issuer or the Guarantor shall become subject generally to the taxing jurisdiction of any territory or any authority therein or thereof having power to tax other than or in addition to the United Kingdom (in the case of the Issuer) or the

United States of America (in the case of the Guarantor) or any such authority therein or thereof, immediately upon becoming aware thereof notify the Trustee of such event and (unless the Trustee otherwise agrees) enter forthwith into a trust deed supplemental to this Trust Deed appropriately modifying the provisions of Condition 7 so that such Condition shall, in substitution for (or, as the case may be, in addition to) the references therein to the United Kingdom (in the case of the Issuer) or the United States of America (in the case of the Guarantor) or any authority therein or thereof having power to tax, make reference to that other or additional territory or any authority therein or thereof having power to tax to whose taxing jurisdiction such payments shall have become subject as aforesaid;

- (xv) comply with and perform all its obligations under the Agency Agreement and use all reasonable endeavours to procure that the Agent and the Paying Agents comply with and perform all their respective obligations thereunder and that the Calculation Agent complies with and performs all its obligations under the relative calculation agency agreement and not make any amendment or modification to the Agency Agreement or the relative calculation agency agreement without the prior written approval of the Trustee;

- (xvi) in order to enable the Trustee to ascertain the nominal amount of Notes of each Series for the time being outstanding for any of the purposes referred to in the proviso to the definition of “**outstanding**” in Clause 1, deliver to the Trustee promptly upon, and in any event within seven days after, being so requested in writing by the Trustee a certificate in writing signed by two Directors of the Issuer or two duly authorised officers of the Issuer or two Directors of the Guarantor or two duly authorised officers of the Guarantor, as appropriate, setting out the total number and aggregate nominal amount of Notes of each Series which:

- (a) up to and including the date of such certificate have been purchased by the Issuer, the Guarantor or any other Subsidiary of the Guarantor and cancelled; and
- (b) are at the date of such certificate held by any person for the benefit of the Issuer, the Guarantor or any other Subsidiary of the Guarantor; and

- (xvii) promptly provide the Trustee with copies of all supplements and/or amendments and/or restatements of the Programme Agreement.

- (B) So long as any of the Dated Subordinated Notes or the relative Receipts or Coupons remains outstanding and if, and to the extent that, prior to making any payment pursuant to Clause 7(C)(5) or any purchase pursuant to Condition 6(h), the Guarantor is required to obtain the approval of the Board of Governors of the United States Federal Reserve System pursuant to Regulation K issued by such Board, or any successor, supplemental or replacement regulation, the Guarantor covenants with the Trustee that it shall promptly:

- (a) apply for such approval; and
- (b) use all reasonable endeavours to obtain such approval.

#### 14. REMUNERATION AND INDEMNIFICATION OF TRUSTEE

(A) THE Issuer shall pay to the Trustee remuneration for its services as trustee of these presents such amount as shall be agreed from time to time between the Issuer and the Trustee. Such remuneration shall accrue from day to day and be payable (in priority to payments to Noteholders, Receiptholders and Couponholders) up to and including the date when, all the Notes having become due for redemption, the redemption moneys and interest thereon to the date of redemption have been paid to the Agent or the Trustee PROVIDED THAT if upon due presentation of any Note, Receipt or Coupon or any cheque payment of the moneys due in respect thereof is improperly withheld or refused, remuneration will commence again to accrue until payment to such Noteholder, Receiptholder or Couponholder is duly made.

(B) In the event of the occurrence of an Event of Default or a Potential Event of Default or the Trustee considering it expedient or necessary or being requested by the Issuer or the Guarantor to undertake duties which the Trustee and the Issuer agree to be of an exceptional nature or otherwise outside the scope of the normal duties of the Trustee under these presents the Issuer shall pay to the Trustee such additional remuneration as shall be agreed between them.

(C) The Issuer shall in addition pay to the Trustee an amount equal to the amount of any value added tax or similar tax chargeable in respect of its remuneration under these presents.

(D) In the event of the Trustee and the Issuer failing to agree:

- (1) (in a case to which sub-clause (A) above applies) upon the amount of the remuneration; or
- (2) (in a case to which sub-clause (B) above applies) upon whether such duties shall be of an exceptional nature or otherwise outside the scope of the normal duties of the Trustee under these presents, or upon such additional remuneration,

such matters shall be determined by a merchant or investment bank (acting as an expert and not as an arbitrator) selected by the Trustee and approved by the Issuer or, failing such approval, nominated (on the application of the Trustee) by the President for the time being of The Law Society of England and Wales (the expenses involved in such nomination and the fees of such merchant or investment bank being borne equally by the Issuer and the Trustee) and the determination of any such merchant or investment bank shall be final and binding upon the Trustee and the Issuer.

(E) The Issuer shall also pay or discharge all Liabilities properly incurred by the Trustee in relation to the preparation and execution of, the exercise of its powers and the performance of its duties under, and in any other manner in relation to, these presents, including but not limited to travelling expenses and any stamp and other taxes or duties paid by the Trustee in connection with any legal proceedings brought or contemplated by or on behalf of the Trustee against the Issuer or the Guarantor for enforcing any obligation under these presents.

(F) All amounts payable pursuant to sub-clause (E) above and/or Clause 15(J) shall be payable by the Issuer on the date specified in a written demand by the Trustee accompanied by appropriate value added tax invoices and in the case of payments actually made by the Trustee prior to such demand shall (if not paid within 10 business days after such demand and the Trustee so requires) carry interest at the rate of two per cent. per annum above the Base Rate from time to time of National Westminster Bank Plc from the date specified in

such demand, and in all other cases shall (if not paid on the date specified in such demand or, if later, within 10 days after such demand and, in either case, the Trustee so requires) carry interest at such rate from the date specified in the demand. All remuneration payable to the Trustee shall carry interest at such rate from the due date therefor.

- (G) Unless otherwise specifically stated in any discharge of these presents the provisions of this Clause and Clause 15(J) shall continue in full force and effect notwithstanding such discharge.
- (H) The Trustee shall be entitled in its absolute discretion to determine in respect of which Series of Notes any Liabilities incurred under these presents have been incurred or to allocate any such Liabilities between the Notes of more than one Series.
- (I) Payments under this Clause 14 are not subordinated to any other obligations of the Issuer or Guarantor.

## 15. SUPPLEMENT TO TRUSTEE ACTS

WHERE there are any inconsistencies between the Trustee Acts and the provisions of these presents, the provisions of these presents shall, to the extent allowed by law, prevail and, in the case of any such inconsistency with the Trustee Act 2000 of Great Britain, the provisions of these presents shall constitute a restriction or exclusion for the purposes of that Act. The Trustee shall have all the powers conferred upon trustees by the Trustee Acts and by way of supplement thereto it is expressly declared as follows:

- (A) The Trustee may in relation to these presents act on the advice or opinion of or any information obtained from any lawyer, valuer, accountant, surveyor, banker, broker, auctioneer or other expert appointed by the Issuer, the Guarantor or, the Trustee, or otherwise whether or not addressed to the Trustee, and shall not be responsible for any Liability occasioned by so acting.
- (B) Any such advice, opinion or information may be sent or obtained by letter, telex, telegram, facsimile transmission or cable and the Trustee shall not be liable for acting on any advice, opinion or information purporting to be conveyed by any such letter, telex, telegram, facsimile transmission or cable although the same shall contain some error or shall not be authentic except where such error or lack of authenticity is manifest.
- (C) The Trustee may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing a certificate signed by any two Directors of the Issuer or any two authorised officers of the Issuer and/or by any two Directors of the Guarantor or any two authorised officers of the Guarantor, and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any Liability that may be occasioned by it or any other person acting on such certificate, whether or not addressed to the Trustee.
- (D) The Trustee shall be at liberty to hold these presents and any other documents relating thereto or to deposit them in any part of the world with any custodian which the Trustee shall be at liberty to appoint under these presents which is a banker or banking company or company whose business includes undertaking the safe custody of documents or lawyer or firm of lawyers considered by the Trustee to be of good repute and the Trustee shall not be responsible for or required to insure against any

Liability incurred in connection with any such holding or deposit and may pay all sums required to be paid on account of or in respect of any such deposit PROVIDED THAT the Trustee shall not be obliged to appoint a custodian of securities payable to bearer.

- (E) The Trustee shall not be responsible for the receipt or application of the proceeds of the issue of any of the Notes by the Issuer, the exchange of any Global Note for another Global Note or Definitive Notes or the delivery of any Global Note or Definitive Notes to the person(s) entitled to it or them.

- (F) The Trustee shall not be bound to give notice to any person of the execution of any documents comprised or referred to in these presents or to take any steps to ascertain whether any Event of Default or any Potential Event of Default has occurred and, until it shall have actual knowledge or express notice pursuant to these presents to the contrary, the Trustee shall be entitled to assume that no Event of Default or Potential Event of Default has occurred and that each of the Issuer and the Guarantor is observing and performing all its obligations under these presents.

- (G) Save as expressly otherwise provided in these presents, the Trustee shall have absolute and uncontrolled discretion as to the exercise or non-exercise of its trusts, powers, authorities and discretions under these presents (the exercise or non-exercise of which as between the Trustee and the Noteholders, the Receiptholders and Couponholders shall be conclusive and binding on the Noteholders, the Receiptholders and Couponholders) and shall not be responsible for any Liability which may result from their exercise or non-exercise.

- (H) The Trustee shall not be liable to any person by reason of having acted upon any Extraordinary Resolution or other resolution purporting to have been passed at any meeting of the holders of Notes of all or any Series in respect whereof minutes have been made and signed even though subsequent to its acting it may be found that there was some defect in the constitution of the meeting or the passing of the resolution, (in the case of an Extraordinary Resolution in writing) that not all such holders had signed the Extraordinary Resolution or that for any reason the resolution was not valid or binding upon such holders and the relative Receiptholders and Couponholders.

- (I) The Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any Note, Receipt or Coupon purporting to be such and subsequently found to be forged or not authentic.

- (J) Without prejudice to the right of indemnity by law given to trustees, each of the Issuer and the Guarantor shall severally indemnify the Trustee and every Appointee (being an Appointee who shall have been appointed by the Trustee after prior consultation by the Trustee with the Issuer and the Guarantor and after consideration in good faith by the Trustee of any representations made by the Issuer or the Guarantor concerning the proposed appointee except where, in the reasonable opinion of the Trustee, such consultation and consideration was not practicable) and keep it or him indemnified against all Liabilities to which it or he may be or become subject or which may be incurred by it or him in the execution or purported execution of any of its or his trusts, powers, authorities and discretions under these presents or its or his functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to these presents or any such appointment.

- (K) Any consent or approval given by the Trustee for the purposes of these presents may be given on such terms and subject to such conditions (if any) as the Trustee thinks fit and notwithstanding anything to the contrary in these presents may be given retrospectively.
- (L) The Trustee shall not (unless and to the extent ordered so to do by a court of competent jurisdiction) be required to disclose to any Noteholder, Receiptholder or Couponholder any information (including, without limitation, information of a confidential, financial or price sensitive nature) made available to the Trustee by the Issuer, the Guarantor or any other person in connection with the trusts of these presents and no Noteholder, Receiptholder or Couponholder shall be entitled to take any action to obtain from the Trustee any such information.
- (M) Where it is necessary or desirable for any purpose in connection with these presents to convert any sum from one currency to another it shall (unless otherwise provided by these presents or required by law) be converted at such rate or rates, in accordance with such method and as at such date for the determination of such rate of exchange, as may be agreed by the Trustee in consultation (if practicable) with the Issuer and any rate, method and date so agreed shall be binding on the Issuer, the Guarantor, the Noteholders, the Receiptholders and the Couponholders.
- (N) The Trustee as between itself and the Noteholders, the Receiptholders and the Couponholders may determine all questions and doubts arising in relation to any of the provisions of these presents. Every such determination, whether or not relating in whole or in part to the acts or proceedings of the Trustee, shall be conclusive and shall bind the Trustee and the Noteholders, the Receiptholders and the Couponholders.
- (O) In connection with the exercise by it of any of its trusts, powers, authorities or discretions under these presents (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities and discretions for individual Noteholders, Receiptholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, the Receiptholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition thereto or in substitution therefor under these presents.
- (P) Any trustee of these presents being a lawyer, accountant, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual professional and other charges for business properly transacted and acts properly done by him or his firm in connection with the trusts of these presents and also his reasonable charges in addition to disbursements for all other work and business done and all time properly spent by him or his firm in connection with matters arising in connection with these presents.
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(Q) The Trustee may (after prior consultation with the Issuer and the Guarantor and after consideration in good faith of any representations made by the Issuer or the Guarantor concerning the proposed appointee except where, in the opinion of the Trustee, such consultation and consideration is not practicable) whenever it thinks fit delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons (whether being a joint trustee of these presents or not) all or any of its trusts, powers, authorities and discretions vested in the Trustee by these presents. Such delegation may be made upon such terms (including power to sub-delegate) and subject to such conditions and regulations as the Trustee may in the interests of the Noteholders think fit. The Trustee shall, provided that it shall have exercised reasonable care in the selection of any such delegate or sub-delegate, not be under any obligation to supervise the proceedings or acts of any such delegate or sub-delegate or be in any way responsible for any Liability incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. The Trustee shall within a reasonable time after any such delegation or any renewal, extension or termination thereof give notice thereof to the Issuer.

® The Trustee may (after prior consultation with the Issuer and the Guarantor and after consideration in good faith of any representations made by the Issuer or the Guarantor concerning the proposed appointee except where, in the opinion of the Trustee, such consultation and consideration is not practicable) in the conduct of the trusts of these presents instead of acting personally employ and pay an agent (whether being a lawyer, nominee or other professional person) to transact or conduct, or concur in transacting or conducting, any business and to do, or concur in doing, all acts required to be done in connection with these presents (including the receipt and payment of money). The Trustee shall, provided that it shall have exercised reasonable care in the selection of any such agent or any custodian, not be in any way responsible for any Liability incurred by reason of any misconduct or default on the part of any such agent or any custodian or be bound to supervise the proceedings or acts of any such agent or any custodian.

(S) The Trustee may (after prior consultation with the Issuer and the Guarantor and after consideration in good faith of any representations made by the Issuer or the Guarantor concerning the proposed appointee except where, in the opinion of the Trustee, such consultation and consideration is not practicable) appoint and pay any person to act as a custodian or nominee on any terms in relation to such assets of the trusts constituted by these presents as the Trustee may determine, including for the purpose of depositing with a custodian these presents or any document relating to the trusts constituted by these presents and the Trustee shall not be responsible for any Liability incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or to be bound to supervise the proceedings or acts of such person; the Trustee is not obliged to appoint a custodian if the Trustee invests in securities payable to bearer.

(T) The Trustee shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of these presents or any other document relating or expressed to be supplemental thereto and shall not be liable for any failure to obtain any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of these presents or any other document relating or expressed to be supplemental thereto.

- (U) The Trustee shall not be responsible to any person for failing to request, require or receive any legal opinion relating to any Notes or for checking or commenting upon the content of any such legal opinion.
- (V) The Trustee shall not be concerned, and need not enquire, as to whether or not any Notes are issued in breach of the Programme Limit.
- (W) The Trustee shall not be obliged to take any action under this Trust Deed unless indemnified to its satisfaction.
- (X) In relation to any asset held by it under this Trust Deed, the Trustee may appoint as its nominee any banker or banking company or company whose business includes the provision of nominee services believed by the Trustee to be of good repute.

## 16. TRUSTEE' S LIABILITY

NOTHING in these presents shall in any case in which the Trustee has failed to show the degree of care and diligence required of it as trustee having regard to the provisions of these presents conferring on it any trusts, powers, authorities or discretions exempt the Trustee from or indemnify it against any liability for breach of trust or any liability which by virtue of any rule of law would otherwise attach to it in respect of any negligence, default or breach of duty of which it may be guilty in relation to its duties under these presents.

## 17. TRUSTEE CONTRACTING WITH THE ISSUER AND THE GUARANTOR

NEITHER the Trustee nor any director or officer or holding company, subsidiary or associated company of a corporation acting as a trustee under these presents shall by reason of its or his fiduciary position be in any way precluded from:

- (i) entering into or being interested in any contract or financial or other transaction or arrangement with the Issuer or the Guarantor or any person or body corporate associated with the Issuer or the Guarantor (including without limitation any contract, transaction or arrangement of a banking or insurance nature or any contract, transaction or arrangement in relation to the making of loans or the provision of financial facilities or financial advice to, or the purchase, placing or underwriting of or the subscribing or procuring subscriptions for or otherwise acquiring, holding or dealing with, or acting as paying agent in respect of, the Notes or any other notes, bonds, stocks, shares, debenture stock, debentures or other securities of, the Issuer or the Guarantor or any person or body corporate associated as aforesaid); or
- (ii) accepting or holding the trusteeship of any other trust deed constituting or securing any other securities issued by or relating to the Issuer or the Guarantor or any such person or body corporate so associated or any other office of profit under the Issuer or the Guarantor or any such person or body corporate so associated,

and shall be entitled to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such contract, transaction or arrangement as is referred to in (i) above or, as the case may be, any such trusteeship or office of profit as is referred to in (ii) above without regard to the interests of the Noteholders and notwithstanding that the same may be contrary or prejudicial to the interests of the Noteholders and shall not be responsible for any Liability occasioned to the Noteholders

thereby and shall be entitled to retain and shall not be in any way liable to account for any profit made or share of brokerage or commission or remuneration or other amount or benefit received thereby or in connection therewith.

Where any holding company, subsidiary or associated company of the Trustee or any director or officer of the Trustee acting other than in his capacity as such a director or officer has any information, the Trustee shall not thereby be deemed also to have knowledge of such information and, unless it shall have actual knowledge of such information, shall not be responsible for any loss suffered by Noteholders resulting from the Trustee's failing to take such information into account in acting or refraining from acting under or in relation to these presents.

## **18. WAIVER, AUTHORISATION AND DETERMINATION**

THE Trustee may without the consent or sanction of the Noteholders, the Receiptholders or the Couponholders and without prejudice to its rights in respect of any subsequent breach, Event of Default or Potential Event of Default from time to time and at any time but only if and in so far as in its opinion the interests of the Noteholders shall not be materially prejudiced thereby waive or authorise any breach or proposed breach by the Issuer or the Guarantor of any of the covenants or provisions contained in these presents or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of these presents

- (A) PROVIDED ALWAYS THAT the Trustee shall not exercise any powers conferred on it by this Clause in contravention of any express direction given by Extraordinary Resolution or by a request under Condition 9 but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made. Any such waiver, authorisation or determination may be given or made on such terms and subject to such conditions (if any) as the Trustee may determine, shall be binding on the Noteholders, the Receiptholders and the Couponholders and, if, but only if, the Trustee shall so require, shall be notified by the Issuer to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

### **MODIFICATION**

The Trustee may without the consent or sanction of the Noteholders, the Receiptholders or the Couponholders at any time and from time to time concur with the Issuer in making any modification (i) to these presents which in the opinion of the Trustee it may be proper to make PROVIDED THAT the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders or (ii) to these presents if in the opinion of the Trustee such modification is of a formal, minor or technical nature or to correct a manifest error. Any such modification may be made on such terms and subject to such conditions (if any) as the Trustee may determine, shall be binding upon the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

The Trustee may without the consent or sanction of the Noteholders, the Receiptholders or the Couponholders at any time and from time to time concur with the Issuer in making any modification to these presents to conform them to conventions then applicable to instruments denominated in Euro.

**19. HOLDER OF DEFINITIVE NOTE ASSUMED TO BE RECEIPHOLDER AND COUPONHOLDER**

- (A) WHEREVER in these presents the Trustee is required or entitled to exercise a power, trust, authority or discretion under these presents, except as ordered by a court of competent jurisdiction or as required by applicable law, the Trustee shall, notwithstanding that it may have express notice to the contrary, assume that each Noteholder is the holder of all Receipts and Coupons appertaining to each Definitive Note of which he is the holder.

**NO NOTICE TO RECEIPHOLDERS OR COUPONHOLDERS**

- (B) Neither the Trustee nor the Issuer shall be required to give any notice to the Receiptholders or Couponholders for any purpose under these presents and the Receiptholders or Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Definitive Notes in accordance with Condition 13.

**20. CURRENCY INDEMNITY**

EACH of the Issuer and the Guarantor shall severally indemnify the Trustee, every Appointee, the Noteholders, the Receiptholders and the Couponholders and keep them indemnified against:

- (a) any Liability incurred by any of them arising from the non-payment by the Issuer or the Guarantor of any amount due to the Trustee or the Noteholders, the Receiptholders or the Couponholders under these presents by reason of any variation in the rates of exchange between those used for the purposes of calculating the amount due under a judgment or order in respect thereof and those prevailing at the date of actual payment by the Issuer or the Guarantor; and
- (b) any deficiency arising or resulting from any variation in rates of exchange between (i) the date as of which the local currency equivalent of the amounts due or contingently due under these presents (other than this Clause) is calculated for the purposes of any bankruptcy, insolvency or liquidation of the Issuer or the Guarantor and (ii) the final date for ascertaining the amount of claims in such bankruptcy, insolvency or liquidation. The amount of such deficiency shall be deemed not to be reduced by any variation in rates of exchange occurring between the said final date and the date of any distribution of assets in connection with any such bankruptcy, insolvency or liquidation.

The above indemnities shall constitute obligations of the Issuer and the Guarantor separate and independent from its/their other obligations under the other provisions of these presents and shall apply irrespective of any indulgence granted by the Trustee or the Noteholders, the Receiptholders or the Couponholders from time to time and shall continue in full force and effect notwithstanding the judgment or filing of any proof or proofs in any bankruptcy, insolvency or liquidation of the Issuer or the Guarantor for a liquidated sum or sums in respect of amounts due under these presents (other than this Clause). Any such deficiency as aforesaid shall be deemed to constitute a loss suffered by the Noteholders, the Receiptholders and the Couponholders and no proof or evidence of any actual loss shall be required by the Issuer or the Guarantor or its liquidator or liquidators.

## 21. NEW TRUSTEE

- THE power to appoint a new trustee of these presents shall, subject as hereinafter provided, be vested in the Issuer but no person shall be appointed who shall not previously have been approved by an Extraordinary Resolution. One or more persons may hold office as trustee or trustees of these presents but such trustee or trustees shall be or include a Trust Corporation. Whenever there shall be more than two trustees of these presents the majority of such trustees shall be competent to execute and exercise all the duties, powers, trusts, authorities and discretions vested in the Trustee by these presents provided that a Trust Corporation shall be included in such majority. Any appointment of a new trustee of these presents shall as soon as practicable thereafter be notified by the Issuer to the Agent and the Noteholders.
- (A)

### SEPARATE AND CO-TRUSTEES

- Notwithstanding the provisions of sub-clause (A) above, the Trustee may (after prior consultation with the Issuer and the Guarantor and consideration in good faith of any representation made by the Issuer or the Guarantor concerning the proposed appointee except where, in the opinion of the Trustee, such consultation or consideration is not practicable), upon giving prior notice to the Issuer and the Guarantor (but without the consent of the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders), appoint any person established or resident in any jurisdiction (whether a Trust Corporation or not) to act either as a separate trustee or as a co-trustee jointly with the Trustee:
- (B)
- (i) if the Trustee considers such appointment to be in the interests of the Noteholders;
  - (ii) for the purposes of conforming to any legal requirements, restrictions or conditions in any jurisdiction in which any particular act or acts is or are to be performed; or
  - (iii) for the purposes of obtaining a judgment in any jurisdiction or the enforcement in any jurisdiction of either a judgment already obtained or any of the provisions of these presents against the Issuer and/or the Guarantor.

Each of the Issuer and the Guarantor irrevocably appoints the Trustee to be its attorney in its name and on its behalf to execute any such instrument of appointment. Such a person shall (subject always to the provisions of these presents) have such trusts, powers, authorities and discretions (not exceeding those conferred on the Trustee by these presents) and such duties and obligations as shall be conferred or imposed by the instrument of appointment. The Trustee shall have power in like manner to remove any such person. Such reasonable remuneration as the Trustee may pay to any such person, together with any attributable Liabilities properly incurred by it in performing its function as such separate trustee or co-trustee, shall for the purposes of these presents be treated as Liabilities incurred by the Trustee.

## 22. TRUSTEE' S RETIREMENT AND REMOVAL

A trustee of these presents may retire at any time on giving not less than three months' prior written notice to the Issuer without giving any reason and without being responsible for any Liabilities incurred by reason of such retirement. The Noteholders shall have the power exercisable by Extraordinary Resolution to remove any trustee or trustees for the time being of these presents. The Issuer undertakes that in the event of the only trustee of these presents which is a Trust Corporation giving notice under this Clause or being removed by Extraordinary Resolution it will use all reasonable endeavours to procure that a new trustee

of these presents being a Trust Corporation is appointed as soon as reasonably practicable thereafter. The retirement or removal of any such trustee shall not become effective until a successor trustee being a Trust Corporation is appointed and, if in such circumstances, no appointment has become effective within two months of the date of such notice or Extraordinary Resolution, the Trustee shall be entitled to appoint a Trust Corporation as trustee of these presents, but no such appointment shall take effect unless previously approved by an Extraordinary Resolution.

### 23. TRUSTEE' S POWERS TO BE ADDITIONAL

THE powers conferred upon the Trustee by these presents shall be in addition to any powers which may from time to time be vested in the Trustee by the general law or as a holder of any of the Notes, Receipts or Coupons.

### 24. SUBSTITUTION

(A) (1) THE Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to the substitution in place of the Issuer (or of the previous substitute under this sub-clause (A)) as the principal debtor under these presents of either (i) the Guarantor, (ii) any Successor in Business of either the Issuer or the Guarantor, (iii) any holding company of either the Issuer or the Guarantor, (iv) any other Subsidiary of the Guarantor or (v) any Subsidiary of any such Successor in Business or holding company (such substituted company being hereafter in this sub-clause (A) called the “**New Issuer**”) provided that a trust deed is executed or some other form of undertaking is given by the New Issuer in form and manner satisfactory to the Trustee, agreeing to be bound by the provisions of these presents with any consequential amendments which the Trustee may deem appropriate as fully as if the New Issuer had been named in these presents as the principal debtor in place of the Issuer (or of the previous substitute under this sub-clause (A)) and provided further that (except where the New Issuer is the Guarantor or its Successor in Business) the Guarantor or, as the case may be, its Successor in Business unconditionally and irrevocably guarantees (in the case of Dated Subordinated Notes, on a basis equivalent to that on which the Notes are subordinated immediately prior to the substitution) all amounts payable under these presents to the satisfaction of the Trustee.

(2) The following further conditions shall apply to (1) above:

- (i) The Issuer and the New Issuer shall comply with such other requirements as the Trustee may reasonably direct in the interests of the Noteholders;
- (ii) where the New Issuer is incorporated, domiciled or resident in, or subject generally to the taxing jurisdiction of, a territory other than or in addition to the United Kingdom or any authority therein or thereof having power to tax, Condition 7 shall be modified so that such Condition shall, in substitution for (or, as the case may be, in addition to) the references therein to the United Kingdom or any authority therein or thereof having power to tax, make reference to that other or additional territory or any authority therein or thereof having power to tax in which the New Issuer is incorporated, domiciled or resident or to whose taxing jurisdiction it is subject;

- (iii) without prejudice to the rights of reliance of the Trustee under the immediately following paragraph (iv), the Trustee is satisfied that the relevant transaction is not materially prejudicial to the interests of the Noteholders; and
- (iv) if two Directors of the New Issuer (or other officers acceptable to the Trustee) shall certify that the New Issuer is solvent at the time at which the relevant transaction is proposed to be effected (which certificate the Trustee may rely upon absolutely) the Trustee shall not be under any duty to have regard to the financial condition, profits or prospects of the New Issuer or to compare the same with those of the Issuer or the previous substitute under this sub-clause (A) as applicable.

The Trustee may agree without the consent of the Noteholders, Receiptholders or Couponholders, to the substitution in place of the Guarantor (or of the previous substitute under this sub-clause (B)) in its capacity as guarantor of such Notes of the Successor in Business of the Guarantor or a holding company of the Guarantor or of such Successor in Business (such substituted company being hereafter in this sub-clause (B) called the “**New Guarantor**”) provided that a trust deed is executed or some other form of undertaking is given by the New Guarantor in form and manner satisfactory to the Trustee, agreeing to be bound by the provisions of these presents with any consequential amendments which the Trustee may deem appropriate as fully as if the New Guarantor had been named in these presents as the guarantor in place of the Guarantor (or of the previous substitute under this sub-clause (B)).

(B) (1)

(2) The following further conditions shall apply to (1) above:

- (i) The Guarantor and the New Guarantor shall comply with such other requirements as the Trustee may reasonably direct in the interests of the Noteholders;
- (ii) where the New Guarantor is incorporated, domiciled or resident in, or subject generally to the taxing jurisdiction of, a territory other than or in addition to the United States of America or any authority therein or thereof having power to tax, Condition 7 shall be modified so that such Condition shall, in substitution for (or, as the case may be, in addition to) the references therein to the United States of America or any authority therein or thereof having power to tax, make reference to that other or additional territory or any authority therein or thereof having power to tax in which the New Guarantor is incorporated, domiciled or resident or to whose taxing jurisdiction it is subject;
- (iii) without prejudice to the rights of reliance of the Trustee under the immediately following paragraph (iv), the Trustee is satisfied that the relevant transaction is not materially prejudicial to the interests of the Noteholders; and
- (iv) if two Directors of the New Guarantor (or other officers acceptable to the Trustee) shall certify that the New Guarantor is solvent at the time at which the relevant transaction is proposed to be effected (which certificate the Trustee may rely upon absolutely) the Trustee shall not be under any duty to have regard to the financial condition, profits or prospects of the New

Guarantor or to compare the same with those of the Guarantor or the previous substitute under this sub-clause (B) as applicable.

(C) Any such trust deed or undertaking shall, if so expressed, operate to release the company being substituted from all of its obligations as principal debtor or, as the case may be, as guarantor under these presents. As soon as reasonably practicable but in any event not later than 21 days after the execution of such documents and compliance with such requirements, the New Issuer or, as the case may be, the New Guarantor shall give notice thereof in a form previously approved by the Trustee to the Noteholders in the manner provided in Condition 13. Upon the execution of such documents and compliance with such requirements, the New Issuer or, as the case may be, the New Guarantor shall be deemed to be named in these presents as the principal debtor in place of the Issuer (or in place of the previous substitute under this Clause) or, as the case may be, as guarantor in place of the Guarantor under these presents and these presents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in these presents to the Issuer or, as the case may be, the Guarantor shall, unless the context otherwise requires, be deemed to be or include references to the New Issuer or, as the case may be, the New Guarantor.

## 25. NOTICES

ANY notice or demand to the Issuer, the Guarantor or the Trustee required to be given, made or served for any purposes under these presents shall be given, made or served by sending the same by pre-paid post (first class if inland, first class airmail if overseas) or facsimile transmission or by delivering it by hand as follows:

to the Issuer:                   c/o MBNA Europe Bank Ltd.  
Stansfield House  
Chester Business Park  
Chester CH4 9QQ  
United Kingdom

(Attention: Company Secretary)  
Facsimile No. 44 1244 672044

Copy to the Guarantor

to the Guarantor:           1100 North King Street  
Wilmington DE 19884  
United States of America

(Attention: Treasurer)  
Facsimile No. 1 302 456 8545

to the Trustee:               Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

(Attention: The Managing Director)  
Telex No. 883341  
Facsimile No. 44 20 7547 6732





or to such other address, or facsimile number as shall have been notified (in accordance with this Clause) to the other parties hereto and any notice or demand sent by post as aforesaid shall be deemed to have been given, made or served two business days in the case of inland post or five business days in the case of overseas post after despatch and any notice or demand sent by facsimile transmission as aforesaid shall be deemed to have been given, made or served 24 hours after the time of despatch provided that in the case of a notice or demand given by facsimile transmission such notice or demand shall forthwith be confirmed by post and telephone. The failure of the addressee to receive such confirmation shall not invalidate the relevant notice or demand given by facsimile transmission.

## 26. GOVERNING LAW

THESE presents are governed by, and shall be construed in accordance with, English law.

## 27. SUBMISSION TO JURISDICTION

(A) THE Guarantor irrevocably agrees for the benefit of the Trustee, the Holders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with these presents and that accordingly any suit, action or proceedings arising out of or in connection with these presents (together referred to as “**Proceedings**”) may be brought in the courts of England. The Guarantor irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Guarantor and may be enforced in the courts of any other jurisdiction. Nothing in this Clause shall limit any right to take Proceedings against the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(B) The Guarantor irrevocably and unconditionally appoints the Issuer (which appointment the Issuer hereby accepts) at its address for receipt of notices pursuant to Clause 25 as the same may modified from time to time and in the event of its ceasing so to act will appoint such other person as the Trustee may approve and as the Guarantor may nominate in writing to the Trustee for the purpose to accept service of process on its behalf in England in respect of any Proceedings. The Guarantor;

- (i) agrees to procure that, so long as any of the Notes remains liable to prescription, there shall be in force an appointment of such a person approved by the Trustee with an office in London with authority to accept service as aforesaid;
- (ii) agrees that failure by any such person to give notice of such service of process to the Guarantor shall not impair the validity of such service or of any judgment based thereon;
- (iii) consents to the service of process in respect of any Proceedings by the airmailing of copies, postage prepaid, to the Guarantor in accordance with Clause 25; and
- (iv) agrees that nothing in these presents shall affect the right to serve process in any other manner permitted by law.

**28. COUNTERPARTS**

THIS Trust Deed and any trust deed supplemental hereto may be executed and delivered in any number of counterparts, all of which, taken together, shall constitute one and the same deed and any party to this Trust Deed or any trust deed supplemental hereto may enter into the same by executing and delivering a counterpart.

IN WITNESS whereof this Trust Deed has been executed as a deed by the Issuer, the Guarantor and the Trustee and delivered on the date stated on page 1.

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## THE FIRST SCHEDULE

### TERMS AND CONDITIONS OF THE NOTES

This Note is one of a Series (as defined below) of Notes issued by MBNA Europe Funding plc (the “**Issuer**”) constituted by a Trust Deed dated 7th May, 1999 (as modified and/or supplemented from time to time, (the “**Trust Deed**”)) made between the Issuer, MBNA America Bank, National Association (the “**Guarantor**”) and Deutsche Trustee Company Limited (formerly known as Bankers Trustee Company Limited) (the “**Trustee**”, which expression shall include any successor as trustee).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “**Global Note**”), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 8th May, 2003 and made between the Issuer, the Guarantor, Deutsche Bank AG London as issuing and principal paying agent and agent bank (the “**Agent**”, which expression shall include any successor agent), the other paying agents named therein (together with the Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents) and the Trustee.

Interest bearing definitive Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The payment of all amounts in respect of this Note have been guaranteed by the Guarantor pursuant to a guarantee contained in the Trust Deed (the “**Guarantee**”).

The Trustee acts for the benefit of the holders for the time being of the Notes (the “**Noteholders**” which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the “**Receiptholders**”) and the holders of the Coupons (the “**Couponholders**”, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement are obtainable free of charge during normal business hours at the registered office for the time being of the Trustee (being at 8th May, 2003 at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom) and at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The

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Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

## 1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note is a Senior Note or a Dated Subordinated Note, as indicated in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Notes which have a maturity at issue of 183 days or less must have a minimum denomination of not less than U.S.\$500,000 (determined by reference to the spot rate on the date of issuance if not denominated in U.S.\$).

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Guarantor, the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and/or Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantor, the Trustee and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any



additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved, by the Issuer, the Agent and the Trustee.

## 2. Status of the Notes and the Guarantee and Subordination

### (a) *Status of the Senior Notes and the relative Receipts and Coupons*

If the Notes are specified as Senior Notes in the applicable Pricing Supplement, the Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### (b) *Guarantee*

The payment of the principal and interest in respect of the Notes and the relative Receipts and Coupons and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed.

### (c) *Status of the Guarantee in respect of the Senior Notes*

The obligations of the Guarantor under the Guarantee in respect of the Senior Notes and the relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and (save for deposits and certain other obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

### (d) *Status and Subordination of the Dated Subordinated Notes and the relative Receipts and Coupons*

If the Notes are specified as Dated Subordinated Notes in the applicable Pricing Supplement, the Notes and any relative Receipts and Coupons constitute unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and the claims of the Noteholders, Receiptholders and Couponholders will, in the event of the winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer. "**Senior Creditors of the Issuer**" means all unsubordinated creditors of the Issuer and all subordinated creditors of the Issuer whose claims against the Issuer rank or are expressed to rank ahead of the claims of the Noteholders, Receiptholders and Couponholders.

Subject to applicable law, no holder of any Dated Subordinated Note or relative Receipt or Coupon may exercise or claim any rights of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Dated Subordinated Notes or any relative Receipt or Coupon, and each holder of any Dated Subordinated Note or relative Receipt or Coupon shall, by virtue of his subscription, purchase or holding of any Dated Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of set-off.

### (e) *Status of the Guarantee in respect of the Dated Subordinated Notes*

The obligations of the Guarantor under the Guarantee in respect of the Dated Subordinated Notes and the relative Receipts and Coupons constitute unsecured obligations of the Guarantor and the claims of the holder of any Dated Subordinated Note or relative Receipt or Coupon pursuant thereto will, in the event of the winding up of the Guarantor, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Guarantor. "**Senior Creditors of the Guarantor**" means all unsubordinated creditors of the Guarantor and all subordinated creditors (including depositors) of the



Guarantor whose claims against the Guarantor rank or are expressed to rank ahead of the claims of the Noteholders, Receiptholders and Couponholders.

Subject to applicable law, no holder of any Dated Subordinated Note or relative Receipt or Coupon may exercise any rights of set-off in respect of any amount owed to it by the Guarantor arising under or in connection with the Guarantee and each holder of any Dated Subordinated Note or relative Receipt or Coupon shall, by virtue of his subscription, purchase or holding of any Dated Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of set-off.

**The Guarantor may be unable to perform in whole or in part its obligation to make any payment which becomes due under the Guarantee in respect of the Dated Subordinated Notes**

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if, prior to making such payment, the Guarantor is required to obtain, and has not obtained, the approval of the Board of Governors of the United States Federal Reserve System (the "Federal Reserve" ) pursuant to Regulation K issued by the Federal Reserve or any successor, supplemental or replacement regulation. The Guarantor has covenanted in the Trust Deed promptly (a) to apply for such approval and (b) to use all reasonable endeavours to obtain such approval.

Investments by the Guarantor in non-U.S. companies are subject to Regulation K. Payments under the Guarantee in respect of the Dated Subordinated Notes would result in the Guarantor having a subordinated claim against the Issuer, which would constitute an "investment" by the Guarantor in the Issuer, as the term "investment" is defined under Section 211.2(m) of Regulation K. If the Guarantor's investment in the Issuer were to be in excess of the General Consent Provisions of Regulation K, the Guarantor would be required to provide the Federal Reserve with written notice 30 days prior to making this investment. During the 30-day notice period, the Federal Reserve may inform the Guarantor that the investment may not be made without the Federal Reserve's specific approval. The Federal Reserve has broad discretion to grant or deny permission to make an investment. In the context of the investment in question, the primary consideration is likely to be the adequacy of the capitalisation of the Guarantor. If the Guarantor is well capitalised at the time of the investment and will remain so after the investment, it is not likely that the Federal Reserve would object to, or would require the Guarantor to obtain its specific approval prior to, making the investment.

### 3. Redenomination

#### (a) *Redenomination*

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders and Receiptholders in accordance with Condition 13 and to the Trustee, elect that, with effect from the Redenomination Date specified in the notice, the Notes and Receipts shall be redenominated in Euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated in Euro in the denomination of 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into Euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent and the Trustee, that the then market practice in respect of the redenomination in Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes or Receipts may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of 1,000, 10,000, 100,000 and (but only to the extent of any remaining amounts less than 1,000 or such smaller denominations as the Agent may approve) 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement
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Euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New Euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

- (v) after the Redenomination Date, all payments in respect of the Notes, Receipts and Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition and/or the Trust Deed as the Issuer may decide, after consultation with the Agent and the Trustee, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in Euro. Any such other changes will not take effect until after they have been notified to the Noteholders in accordance with Condition 13.

(b) *Definitions*

In these Terms and Conditions, the following expressions have the following meanings:

“**Established Rate**” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“**Euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“**Redenomination Date**” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“**Treaty**” means the Treaty establishing the European Community, as amended.

#### 4. Interest

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

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Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Terms and Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

In these Terms and Conditions, the following expressions have the following meanings:

“**Day Count Fraction**” means:

- (i) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Interest Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year;
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360;
- (iii) on such other basis as may be agreed, as specified in the applicable Pricing Supplement; and

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including where either the Interest Commencement Date or the final Interest Payment Date is not a

Determination Date, the period commencing on the first Determination Date prior to, and ending on, the first Determination Date falling after such date); and

“**sub-unit**” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) Interest Payment Dates

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Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) (each an “**Interest Payment Date**”) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than Euro a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and



foreign currency deposits), in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars, shall be Sydney and Melbourne or, if the Specified Currency is New Zealand dollars, shall be Auckland and Wellington) or (2) in relation to any sum payable in Euro a day on which the TARGET System is open. In these Terms and Conditions, “**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

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## (ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

## (A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”) or on the Euro-zone inter-bank offered rate (“**EURIBOR**”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

## (B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (as specified in the applicable Pricing Supplement) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of paragraph (1) above, no such offered quotation appears or, in the case of paragraph (2) above, fewer than three such offered quotations appear, in each case as at the time specified in this Condition 4(b)(ii)(B) the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a

percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR, or Brussels time, if the Reference Rate is EURIBOR) on the Interest

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Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR, or Brussels time, if the Reference Rate is EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

In these Terms and Conditions, “**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Agent or as specified in the applicable Pricing Supplement.

#### Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such

(iii) Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate

of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

- (iv) Determination of Rate of Interest and calculation of Interest Amounts The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b):

- (i) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each



Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

#### Determination of Calculation by Trustee

- (vi) If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 4, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

#### Certificates to be final

- (vii) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent or the Trustee (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### (c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

#### (d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

#### (e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

## 5. Payments

#### (a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by credit or transfer to an account outside the United States in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial





centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively); and

- (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. No payments will be made to an account located in the United States or by mail to an address in the United States.

(b) *Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupons would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London;
  - (C) any Additional Financial Centre specified in the applicable Pricing Supplement; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (2) in relation to any sum payable in Euro, a day on which the TARGET System is open.

(f) *Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
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- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6(e)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or under any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## 6. Redemption and Purchase

### (a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

### (b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of the notice referred to above that either:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or two authorised officers of the Issuer or, as the case may be, two Directors of the Guarantor or two authorised officers of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to rely on such certificate and opinion in good faith without further enquiry.

Notes redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Call Option)*

If Call Option is specified in the applicable Pricing Supplement, the Issuer may, having given:

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- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee and the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (“**Redeemed Notes**”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders other than holders of Dated Subordinated Notes (Put Option)*

If this Note is a Senior Note and Put Option is specified in the applicable Pricing Supplement, upon the holder of this Note giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “**Put Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note other than a Zero Coupon Note (but including an Instalment Note and Partly Paid Note), at the amount specified in, or determined in the manner specified in, the applicable Pricing

Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

- (ii) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^Y$$

where:

“**RP**” means the Reference Price; and

“**AY**” means the Accrual Yield expressed as a decimal; and

“**Y**” is a fraction, the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes become due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) *Purchases*

The Issuer, the Guarantor or any other Subsidiary (as defined below) of the Guarantor may at any time purchase Notes (provided that, in the case of definitive Notes, all unmaturing Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

(i) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmaturing Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmaturing Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 13.

**7. Taxation**

(a) *Payments without Withholding or Deduction*

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature

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imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction.

(b) *Exceptions Relating to United Kingdom Taxes*

The obligation of the Issuer and the Guarantor (if the Guarantor is required to make payments under the Guarantee) in Condition 7(a) hereof to pay additional amounts in respect of taxes imposed, levied, collected, withheld or assessed by or within the United Kingdom or any taxing authority thereof or therein shall not apply as a result of withholding or deduction on account of any Note, Receipt or Coupon presented or surrendered:

- (i) by or on behalf of a holder who (a) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or any other claim for exemption to the relevant tax authority (but fails to do so) or (b) is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some present or former connection with the United Kingdom other than the mere holding of such Note, Receipt or Coupon; or
- (ii) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(e)); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

(c) *Exceptions Relating to United States Taxes*

The obligation of the Issuer and the Guarantor (if the Guarantor is required to make payments under the Guarantee) in Condition 7(a) hereof to pay additional amounts in respect of taxes imposed, levied, collected, withheld or assessed by or within the United States of America or any taxing authority thereof or therein shall not apply as a result of withholding or deduction on account of one or more of the following:

- (i) any tax, duty, assessment or other governmental charge which would not have been imposed but for (A) the existence of any present or former connection between the holder of the Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, such holder, if such holder is an estate, a trust, a partnership or a corporation) and the United States of America, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder or possessor) being or having been present therein, being or having been a citizen or resident thereof, being or having been engaged in a trade or business therein or having or having had a permanent establishment therein or (B) the failure by such holder to comply with any certification, identification, or information reporting requirements under the income tax laws and regulations of the United States of America, without regard to any tax treaty, or any political subdivision or taxing authority thereof or therein to establish entitlement to an exemption from withholding as a non-resident of the United States of America; or
- (ii) any tax, duty, assessment or other governmental charge which would not have been so imposed but for the presentation or surrender by the holder of the Note, Receipt or Coupon for payment on a date more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(e)); or
- (iii) in the case of any estate, inheritance, gift, sales, transfer, excise, personal property or similar tax, assessment or other governmental charge; or

- (iv) any tax, assessment or other governmental charge imposed by reason of such Noteholder' s past or present status as a passive foreign investment company, a controlled foreign corporation, a personal holding company or
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foreign personal holding company with respect to the United States, as a private foundation or other tax exempt organisation for United States federal income tax purposes, or as a corporation which accumulates earnings to avoid United States federal income tax; or

(v) any tax, assessment or other governmental charge which is payable otherwise than by withholding from payment of principal of, or interest on, such Note, receipt or coupon; or

(vi) any tax, assessment or other governmental charge required to be withheld by any Paying Agent from any payment of principal of, or interest on, any Note, receipt or coupon if such payment can be made without withholding by any other Paying Agent; or

(vii) any tax assessment or other governmental charge imposed on interest received by a holder or beneficial owner of a Note, receipt or coupon that is a 10 per cent. shareholder (as defined in Section 871(h)(3)(B) of the United States Internal Revenue Code of 1986, as amended (the “Code”), and the regulations that may be promulgated thereunder) of the Guarantor.

No additional amounts shall be paid to any United States Alien (as defined below) who is a fiduciary or partnership or other than the sole beneficial owner of such Note, receipt or coupon appertaining thereto to the extent that a beneficiary or settlor with respect to such fiduciary, or a member of such partnership or a beneficial owner thereof would not have been entitled to the payment of such additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note, receipt of any coupon appertaining thereto.

As used herein:

(A) “**United States Alien**” means any person who, for United States federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust, or foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust;

(B) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13; and

(C) “**Tax Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or the United States or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor).

## 8. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

## 9. Events of Default

(a) *Events of Default and Enforcement relating only to Senior Notes*

(i) This Condition 9(a) shall apply only to Senior Notes.

(ii) The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding (as defined in the Trust Deed) or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall (subject to being indemnified to its satisfaction), (but, in the case of the happening of any of the events mentioned in sub-paragraphs (B), (C), (E), (F), (G) and (H) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the

Noteholders) give notice to the Issuer that the Notes are, and they shall accordingly thereby become, immediately due and

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repayable at their Early Redemption Amount, together with accrued interest (if any) as provided in the Trust Deed, if any of the following events (“**Events of Default**”) shall have occurred and be continuing (provided that, in the case of the occurrence of any event or events set forth in sub-paragraphs (D) or (F) below in respect of the Guarantor, the Notes shall become immediately and automatically due and payable without any declaration or other notice to the Issuer or the Guarantor or any other formality required):

- (A) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Notes or any of them and, in the case of interest, such default continues for a period of 30 days; or
- (B) if the Issuer or the Guarantor fails to perform, observe or comply with any obligation, condition or provision binding on it under these Terms and Conditions or the Trust Deed (other than any obligation of the Issuer or the Guarantor for the payment of any principal or premium or interest in respect of the Notes) and such failure continues for more than 90 days (or such longer period as the Trustee may permit) following service by the Trustee on the Issuer or the Guarantor (as the case may be) of notice requiring the same to be remedied; or
- (C) if any indebtedness for moneys borrowed (which indebtedness has an outstanding aggregate principal amount of at least the Specified Amount) of the Issuer or the Guarantor is not paid on its due date (or by the expiry of any applicable grace period as originally provided) or becomes due and payable prior to its stated maturity by reason of default or if any guarantee of or indemnity in respect of any payment in respect of indebtedness for moneys borrowed of any third party given by the Issuer or the Guarantor is not honoured when due and called upon (except where the aggregate liability under any such guarantee or indemnity does not equal or exceed the Specified Amount); or
- (D) if, otherwise than for the purposes of a reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, an order is made or an effective resolution is passed for the winding up of the Issuer or the Guarantor; or
- (E) if the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or substantially the whole of its business, save for the purposes of reorganisation on terms approved by the Trustee or an Extraordinary Resolution of the Noteholders, or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (F) if (A) an order is made against the Issuer or the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an order is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or the Guarantor or, as the case may be, in relation to the whole or substantially the whole of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or substantially the whole of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or substantially the whole of the undertaking or assets of any of them and (B) in any case is not discharged within 60 days; or
- (G) if the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws; or
- (H) the Issuer ceases to be a subsidiary (within the meaning of Section 736 of the Companies Act 1985) directly or indirectly, of the Guarantor.

- (iii) At any time after the Notes or any of them shall have become due and repayable and have not been repaid, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce repayment thereof together with accrued interest and to enforce the provisions of the Trust Deed, but it shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then

outstanding; and (b) it shall have been indemnified to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled to proceed against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fail to do so within a reasonable time and such failure is continuing.

For the purposes of Condition 9(a):

- (i) **“indebtedness for moneys borrowed”** means any present or future indebtedness for or in respect of moneys borrowed or raised provided that indebtedness for moneys borrowed shall not include with respect to any entity which is a bank:
- (a) indebtedness for moneys borrowed in respect of retail deposits held by such entity;
  - (b) indebtedness for moneys borrowed in respect of agreements in the ordinary course of business to purchase or repurchase securities or loans; and
  - (c) contingent liabilities incurred in the ordinary course of banking business (including banker’s acceptances, trade acceptances, letters of credit and finance acceptance),

and provided further that each of the foregoing items in this definition shall be deemed to constitute indebtedness for moneys borrowed only to the extent it would be (or in the case of contingent obligations, the indebtedness for moneys borrowed of the primary obligor would be) required to be reflected as a liability by generally accepted accounting principles in England and Wales or the United States (as the case may be);

- (ii) **“Subsidiary”** means any corporation or other business entity of which the Guarantor owns or controls (either directly or through another Subsidiary or other Subsidiaries) 50 per cent. or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such corporation or other business entity (other than capital stock or other ownership interest of any other class or classes which have voting power upon the occurrence of any contingency) and any corporation or other business entity which at any time has its accounts consolidated with those of the Guarantor; and
- (iii) **“Specified Amount”** shall mean £15,000,000 or its equivalent in any other currency or currencies.

(b) *Events of Default and Enforcement relating only to Dated Subordinated Notes*

- (i) This Condition 9(b) shall apply only to Dated Subordinated Notes.

- If default is made in the payment of principal, premium (if any) or interest due in respect of the Notes and such default continues for a period of 30 days, the Trustee may, subject as provided below, at its discretion and without further notice, institute proceedings for the winding up of the Issuer in England and/or Wales (but not elsewhere) or (to the extent permitted by applicable laws or regulations) for the winding-up of the Guarantor in the United States (but not elsewhere) or submit a claim in the winding-up of the Issuer or the Guarantor (whether in England and/or Wales or, as the case may be, the United States or elsewhere), but may take no further action against the Issuer or take any action to wind up the Guarantor in respect of such default.
- (ii)

*Under the United States Federal Deposit Insurance Act, currently only the United States Federal Deposit Insurance Corporation has the authority to wind up the Guarantor.*

- If, otherwise than for the purposes of a reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, an order is made or an effective resolution is passed for the winding up of the Issuer or the Guarantor (whether in England and/or Wales or, as the case may be, in the United States or elsewhere), the Trustee may, subject as provided below, at its discretion, give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount, together with accrued interest (if any) as provided in the Trust Deed. In the case of a winding up of the Guarantor, the Notes shall become immediately and automatically due and payable without any declaration or other notice to the Issuer or the Guarantor or any other formality required.
- (iii)

(iv) Without prejudice to paragraph (ii) or (iii) above, if the Issuer or the Guarantor fails to perform, observe or comply with any obligation, condition or provision binding on it under these Terms and Conditions or the Trust Deed (other than any obligation of the Issuer or the Guarantor for the payment of any principal, premium or interest in respect of the Notes) and such failure continues for more than 10 days (or such

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longer period as the Trustee may permit) following service by the Trustee on the Issuer or the Guarantor (as the case may be) of notice requiring the same to be remedied the Trustee may, subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce such obligation, condition or provision provided that neither the Issuer nor the Guarantor shall as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it or any damages.

- (v) The Trustee shall be bound to take action as referred to in paragraphs (ii), (iii) and/or (iv) above if (I) it shall have been so requested by an Extraordinary Resolution of the Noteholders or in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding and (II) it shall have been indemnified to its satisfaction.

- (vi) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor pursuant to paragraph (iv) above unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing. No Noteholder, Receiptholder or Couponholder shall be entitled to institute proceedings in England and/or Wales or in the United States as the case may be (or elsewhere) for the winding up of the Issuer or the Guarantor or to submit a claim in the winding up of the Issuer or the Guarantor except that if the Trustee, having become bound so to proceed against the Issuer or the Guarantor as aforesaid, fails to do so, or, being able and bound to submit a claim in the winding up of the Issuer or the Guarantor, fails to do so, in each case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings for the winding up of the Issuer and/or the Guarantor as the case may be, and/or submit a claim in the winding up of the Issuer or the Guarantor to the same extent (but not further or otherwise) that the Trustee would have been so entitled to do so.

- (vii) No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9(b), shall be available to the Trustee or the Noteholders, Receiptholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach of the Issuer or the Guarantor of any of its other obligations under or in respect of the Notes or under the Trust Deed.

## 10. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 11. Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is, with the prior written consent of the Trustee, entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents outside the United States and/or approve any change in the specified office outside the United States through which any Paying Agent acts, provided that:

- (i) there will at all times be an Agent;
- (ii) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (iii) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or law.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other



than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Guarantor and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## 13. Notices

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London approved by the Trustee, and (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg approved by the Trustee. It is expected that such publication will be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

If publication as provided above is not practicable, notice will be given in such other manner and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 14. Meetings of Noteholders, Modification, Authorisation and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification or abrogation of any of the provisions of these Terms and Conditions, the Notes, the Receipts, the Coupons or the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification or abrogation of certain provisions of these Terms and Conditions, the Notes, the Receipts, the Coupons or the Trust Deed, the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which in any such case is not, in the opinion of the Trustee materially prejudicial to the interests of the Noteholders or to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, at any time and from time to time with the Issuer to any modification of these Terms and Conditions or any of the provisions of the Trust Deed to conform them in conventions then applicable to instruments denominated in Euro.

Any such modification, waiver or authorisation shall be binding on the Noteholders, Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities and discretions for individual Noteholders, Receiptholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer or the Guarantor or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

## 15. Indemnification of the Trustee and Trustee contracting with the Issuer and/or Guarantor

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into or be interested in any contract or financial or other transaction or arrangement with the Issuer or the Guarantor or any person or body corporate associated with the Issuer or the Guarantor, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## 16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other series in certain circumstances where the Trustee so decides.

## 17. Substitution

### (a) *Substitution of Principal Debtor*

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders to the substitution in place of the Issuer (or of any previous substitute under this paragraph) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of either (i) the Guarantor, (ii) any Successor in Business (as defined in the Trust Deed) of the Issuer or the Guarantor, (iii) any holding company of either the Issuer or the Guarantor, (iv) any other Subsidiary of the Guarantor or (v) any Subsidiary of any such Successor in Business or holding company, subject to (a) except where the Guarantor or its Successor in Business is the new principal debtor, the Notes being unconditionally and irrevocably guaranteed (in the case of Dated Subordinated Notes, on a basis equivalent to that on which the Notes are subordinated immediately prior to the substitution) by the Guarantor or, as the case may be, its Successor in Business, (b) the Trustee being satisfied that the interest of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.



(b) *Substitution of the Guarantor as guarantor*

The Trustee may also agree, without the consent of the Noteholders, Receiptholders or Couponholders, to the substitution in place of the Guarantor in its capacity as guarantor of such Notes of the Successor in Business (as defined in the Trust Deed) of the Guarantor, subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (b) certain other conditions set out in the Trust Deed being complied with.

(c) *Effect of substitution*

Any such substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

**18. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

**19. Governing Law and Submission to Jurisdiction**

- (a) The Trust Deed (including the Guarantee), the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) *Submission to jurisdiction*

The Guarantor agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Notes, the Receipts and the Coupons may be brought in such courts.

Nothing contained in this Condition shall limit any right to take Proceedings against the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Appointment of Process Agent*

The Guarantor appoints the Issuer at its principal office at Stansfield House, Chester Business Park, Chester CH4 9QQ, United Kingdom as its agent for service or process, and undertakes that, in the event of the Issuer ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(d) *Other documents*

The Guarantor has in the Agency Agreement and the Trust Deed submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

**AGENT**

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**OTHER PAYING AGENT**

Deutsche Bank Luxembourg S.A.  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg  
Luxembourg

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**THE SECOND SCHEDULE**

**FORMS OF GLOBAL AND DEFINITIVE NOTES, RECEIPTS, COUPONS AND TALONS**

**PART I**

**FORM OF TEMPORARY GLOBAL NOTE**

[ANY UNITED STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.]<sup>1</sup>

[BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER).]<sup>2</sup>

**MBNA EUROPE FUNDING PLC**

(the “**Issuer**”)

*(incorporated with limited liability in England and Wales with registered number 2950906)*

Unconditionally and irrevocably guaranteed by

**MBNA AMERICA BANK, NATIONAL ASSOCIATION**

(the “**Guarantor**”)

*(a national banking association organised under the laws of the United States of America)*

**TEMPORARY GLOBAL NOTE**

This Note is a Temporary Global Note in respect of a duly authorised issue of Notes of the Issuer (the “**Notes**”) of the Nominal Amount, Specified Currency(ies) and Specified Denomination(s) as are specified in the Pricing Supplement applicable to the Notes (the “**Pricing Supplement**”), a copy of which is annexed hereto. References herein to the Conditions shall be to the Terms and Conditions of the Notes as set out in the First Schedule to the Trust Deed (as defined below) as supplemented, replaced and modified by the Pricing Supplement but, in the event of any conflict between the provisions of the said Conditions and the information in the Pricing Supplement, the Pricing Supplement will prevail. Words and expressions defined in the Conditions shall bear the same meanings when used in this Global Note. This Global Note is issued subject to, and with the benefit of, the Conditions and a Trust Deed dated 7th May, 1999 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) and made between the Issuer, the Guarantor and Deutsche Trustee Company Limited (formerly called Bankers Trustee Company Limited) as trustee for the holders of the Notes.

1. Delete where the original maturity of the Notes is 183 days or less.
2. Delete where the original maturity of the Notes is more than 183 days.

The Issuer, subject as hereinafter provided and subject to and in accordance with the Conditions and the Trust Deed, promises to pay to the bearer hereof on each Instalment Date (if the Notes are repayable in instalments) and on the Maturity Date (if any) and/or on such other date(s) as all or any of the Notes represented by this Global Note may become due and repayable in accordance with the Conditions and the Trust Deed, the amount payable under the Conditions in respect of such Notes on each such date and to pay interest (if any) on the nominal amount of the Notes from time to time represented by this Global Note calculated and payable as provided in the Conditions and the Trust Deed together with any other sums payable under the Conditions and the Trust Deed, upon presentation and, at maturity, surrender of this Global Note at the specified office of the Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom or such other specified office as may be specified for this purpose in accordance with the Conditions or at the specified office of any of the other Paying Agents located outside the United States, its territories and possessions (except as provided in the Conditions) from time to time appointed by the Issuer and the Guarantor in respect of the Notes. On any redemption or payment of an instalment or interest being made in respect of, or purchase and cancellation of, any of the Notes represented by this Global Note details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered by or on behalf of the Issuer in Schedule One hereto and the relevant space in Schedule One hereto recording any such redemption, payment or purchase and cancellation (as the case may be) shall be signed by or on behalf of the Issuer. Upon any such redemption, payment of an instalment or purchase and cancellation the nominal amount of this Global Note and the Notes represented by this Global Note shall be reduced by the nominal amount of such Notes so redeemed or purchased and cancelled or the amount of such instalment. The nominal amount from time to time of this Global Note and of the Notes represented by this Global Note following any such redemption, payment of an instalment or purchase and cancellation as aforesaid or any exchange as referred to below shall be the nominal amount most recently entered in the relevant column in Part II, III or IV of Schedule One hereto or in Schedule Two hereto.

Payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will only be made to the bearer hereof to the extent that there is presented to the Agent by Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) or Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) a certificate in or substantially in the form set out in Part VII of the Second Schedule to the Trust Deed to the effect that it has received from or in respect of a person entitled to a particular nominal amount of the Notes represented by this Global Note (as shown by its records) a certificate in or substantially in the form of Certificate “A” as set out in Part VII of the Second Schedule to the Trust Deed. The bearer of this Global Note will not (unless upon due presentation of this Global Note for exchange, delivery of the appropriate number of Definitive Notes (together, if applicable, with the Receipts, Coupons and Talons appertaining thereto in or substantially in the forms set out in Parts III, IV, V and VI of the Second Schedule to the Trust Deed) or, as the case may be, issue and delivery (or, as the case may be, endorsement) of the Permanent Global Note is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment hereon due on or after the Exchange Date.

On or after the date (the “**Exchange Date**”) which is the later of (i) 40 days after the Issue Date and (ii) 40 days after the completion of the distribution of the Notes as certified by the relevant Dealer(s) (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue), this Global Note may be exchanged (free of charge) in whole or in part for, as specified in the Pricing Supplement, either Definitive Notes and (if applicable) Receipts, Coupons and/or Talons (on the basis that all the appropriate details have been included on the face of such Definitive Notes and (if applicable) Receipts, Coupons and/or Talons and the relevant information supplementing, replacing or modifying the Conditions appearing in the Pricing Supplement has been endorsed on or attached to such Definitive Notes) or a Permanent Global Note in or substantially in the form set out in Part II of the Second Schedule to the Trust Deed (together with the Pricing Supplement attached

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thereto) upon notice being given by Euroclear and/or Clearstream, Luxembourg acting on the instructions of any holder of an interest in this Global Note and subject, in the case of Definitive Notes, to such notice period as is specified in the Pricing Supplement. If Definitive Notes and (if applicable) Receipts, Coupons and/or Talons have already been issued in exchange for all the Notes represented for the time being by the Permanent Global Note, then this Global Note may only thereafter be exchanged for Definitive Notes and (if applicable) Receipts, Coupons and/or Talons pursuant to the terms hereof. Presentation of this Global Note for exchange shall be made by the bearer hereof on any day (other than a Saturday or Sunday) on which banks are open for business in London at the office of the Agent specified above. The Issuer shall procure that Definitive Notes or (as the case may be) the Permanent Global Note shall be so issued and delivered in exchange for only that portion of this Global Note in respect of which there shall have been presented to the Agent by Euroclear or Clearstream, Luxembourg a certificate in or substantially in the form set out in Part VII of the Second Schedule to the Trust Deed to the effect that it has received from or in respect of a person entitled to a particular nominal amount of the Notes represented by this Global Note (as shown by its records) a certificate in or substantially in the form of Certificate "A" as set out in Part VII of the Second Schedule to the Trust Deed. On an exchange of the whole of this Global Note, this Global Note shall be surrendered to the Agent. On an exchange of part only of this Global Note, details of such exchange shall be entered by or on behalf of the Issuer in Schedule Two hereto and the relevant space in Schedule Two hereto recording such exchange shall be signed by or on behalf of the Issuer, whereupon the nominal amount of this Global Note and the Notes represented by this Global Note shall be reduced by the nominal amount of this Global Note so exchanged. On any exchange of this Global Note for a Permanent Global Note, details of such exchange shall be entered by or on behalf of the Issuer in Schedule Two to the Permanent Global Note and the relevant space in Schedule Two thereto recording such exchange shall be signed by or on behalf of the Issuer.

Until the exchange of the whole of this Global Note as aforesaid, the bearer hereof shall (subject as provided in the next paragraph) in all respects be entitled to the same benefits as if he were the bearer of Definitive Notes and the relative Receipts, Coupons and/or Talons (if any) in the form(s) set out in Parts III, IV, V and VI (as applicable) of the Second Schedule to the Trust Deed.

Each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of the Notes represented by this Global Note (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal and interest on such nominal amount of such Notes, the right to which shall be vested, as against the Issuer and the Guarantor, solely in the bearer of this Global Note in accordance with and subject to the terms of this Global Note and the Trust Deed.

This Global Note is governed by, and shall be construed in accordance with, English law.

This Global Note confers no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Global Note, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

This Global Note shall not be valid unless authenticated by Deutsche Bank AG London, as Agent.

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IN WITNESS whereof the Issuer has caused this Global Note to be signed manually or in facsimile by a person duly authorised on its behalf.

Dated as of the Issue Date.

**MBNA EUROPE FUNDING PLC**

By: \_\_\_\_\_  
**Duly Authorised**

Authenticated without warranty, recourse or liability by  
Deutsche Bank AG London,  
as Agent.

By: \_\_\_\_\_  
**Authorised Officer**

By: \_\_\_\_\_  
**Authorised Officer**











## PART II

## FORM OF PERMANENT GLOBAL NOTE

[ANY UNITED STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.]<sup>1</sup>

[BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER).]<sup>2</sup>

**MBNA EUROPE FUNDING PLC**  
(the “Issuer”)

*(incorporated with limited liability in England and Wales with registered number 2950906)*

Unconditionally and irrevocably guaranteed by  
**MBNA AMERICA BANK, NATIONAL ASSOCIATION**  
(the “Guarantor”)

*(a national banking association organised under the laws of the United States of America)*

## PERMANENT GLOBAL NOTE

This Note is a Permanent Global Note in respect of a duly authorised issue of Notes of the Issuer (the “Notes”) of the Nominal Amount, Specified Currency(ies) and Specified Denomination(s) as are specified in the Pricing Supplement applicable to the Notes (the “Pricing Supplement”), a copy of which is annexed hereto. References herein to the Conditions shall be to the Terms and Conditions of the Notes as set out in the First Schedule to the Trust Deed (as defined below) as supplemented, replaced and modified by the Pricing Supplement but, in the event of any conflict between the provisions of the said Conditions and the information in the Pricing Supplement, the Pricing Supplement will prevail. Words and expressions defined in the Conditions shall bear the same meanings when used in this Global Note. This Global Note is issued subject to, and with the benefit of, the Conditions and a Trust Deed dated 7th May, 1999 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) and made between the Issuer, the Guarantor and Deutsche Trustee Company Limited (formerly called Bankers Trustee Company Limited) as trustee for the holders of the Notes.

The Issuer, subject to and in accordance with the Conditions and the Trust Deed, promises to pay to the bearer hereof on each Instalment Date (if the Notes are repayable in instalments) and on the Maturity Date (if any) and/or on such other date(s) as all or any of the Notes represented by this

1. Delete where the original maturity of the Notes is 183 days or less.
2. Delete where the original maturity of the Notes is more than 183 days.

Global Note may become due and repayable in accordance with the Conditions and the Trust Deed, the amount payable under the Conditions in respect of such Notes on each such date and to pay interest (if any) on the nominal amount of the Notes from time to time represented by this Global Note calculated and payable as provided in the Conditions and the Trust Deed together with any other sums payable under the Conditions and the Trust Deed, upon presentation and, at maturity, surrender of this Global Note at the specified office of the Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom or such other specified office as may be specified for this purpose in accordance with the Conditions or at the specified office of any of the other Paying Agents located outside the United States, its territories and possessions (except as provided in the Conditions) from time to time appointed by the Issuer and the Guarantor in respect of the Notes. On any redemption or payment of an instalment or interest being made in respect of, or purchase and cancellation of, any of the Notes represented by this Global Note details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered by or on behalf of the Issuer in Schedule One hereto and the relevant space in Schedule One hereto recording any such redemption, payment or purchase and cancellation (as the case may be) shall be signed by or on behalf of the Issuer. Upon any such redemption, payment of an instalment or purchase and cancellation the nominal amount of this Global Note and the Notes represented by this Global Note shall be reduced by the nominal amount of such Notes so redeemed or purchased and cancelled or the amount of such instalment. The nominal amount from time to time of this Global Note and of the Notes represented by this Global Note following any such redemption, payment of an instalment or purchase and cancellation as aforesaid or any exchange as referred to below shall be the nominal amount most recently entered in the relevant column in Part II, III or IV of Schedule One hereto or in Schedule Two hereto.

If the Notes represented by this Global Note were, on issue, represented by a Temporary Global Note then on any exchange of such Temporary Global Note for this Global Note or any part hereof, details of such exchange shall be entered by or on behalf of the Issuer in Schedule Two hereto and the relevant space in Schedule Two hereto recording such exchange shall be signed by or on behalf of the Issuer, whereupon the nominal amount of this Global Note and the Notes represented by this Global Note shall be increased by the nominal amount of the Temporary Global Note so exchanged.

This Global Note may be exchanged (free of charge) in whole, but not in part, for Definitive Notes and (if applicable) Receipts, Coupons and/or Talons in or substantially in the forms set out in Parts III, IV, V and VI of the Second Schedule to the Trust Deed (on the basis that all the appropriate details have been included on the face of such Definitive Notes and (if applicable) Receipts, Coupons and/or Talons and the relevant information supplementing, replacing or modifying the Conditions appearing in the Pricing Supplement has been endorsed on or attached to such Definitive Notes) either, as specified in the applicable Pricing Supplement:

- upon not less than 60 days' written notice being given to the Agent by Euroclear Bank S.A./N.V., as operator of the Euroclear System
- (i) (“**Euroclear**”) and/or Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) (acting on the instructions of any holder of an interest in this Global Note); or
- (ii) only upon the occurrence of an Exchange Event.

An “**Exchange Event**” means:

- (1) an Event of Default (as defined in Condition 9) has occurred and is continuing;
- (2) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday,



statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available; or

(3) the Issuer determining that this Global Note shall be exchanged.

Upon the occurrence of an Exchange Event:

(i) the Issuer will promptly give notice to Noteholders in accordance with Condition 13 of the occurrence of such Exchange Event; and

(ii) Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in this Global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (3) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

The first notice requesting exchange in accordance with the above provisions shall give rise to the issue of Definitive Notes for the total nominal amount of Notes represented by this Global Note.

Any such exchange as aforesaid will be made upon presentation of this Global Note by the bearer hereof on any day (other than a Saturday or Sunday) on which banks are open for business in London at the office of the Agent specified above.

The aggregate nominal amount of Definitive Notes issued upon an exchange of this Global Note will be equal to the aggregate nominal amount of this Global Note. Upon exchange of this Global Note for Definitive Notes, the Agent shall cancel it or procure that it is cancelled.

Until the exchange of the whole of this Global Note as aforesaid, the bearer hereof shall (subject as provided in the next paragraph) in all respects be entitled to the same benefits as if he were the bearer of Definitive Notes and the relative Receipts, Coupons and/or Talons (if any) in the form(s) set out in Parts III, IV, V and VI (as applicable) of the Second Schedule to the Trust Deed.

Each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of the Notes represented by this Global Note (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal and interest on such nominal amount of such Notes, the right to which shall be vested, as against the Issuer and the Guarantor, solely in the bearer of this Global Note in accordance with and subject to the terms of this Global Note and the Trust Deed.

This Global Note is governed by, and shall be construed in accordance with, English law.

This Global Note confers no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Global Note, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

This Global Note shall not be valid unless authenticated by Deutsche Bank AG London, as Agent.

IN WITNESS whereof the Issuer has caused this Global Note to be signed manually or in facsimile by a person duly authorised on its behalf.

Dated as of the Issue Date.

**MBNA EUROPE FUNDING PLC**

By: **Duly Authorised** \_\_\_\_\_

Authenticated without warranty, recourse or liability by  
Deutsche Bank AG London, as Agent.

By: \_\_\_\_\_  
**Authorised Officer**

By: \_\_\_\_\_  
**Authorised Officer**

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## PART III

## FORM OF DEFINITIVE NOTE

[ANY UNITED STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.]<sup>1</sup>

[BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER).]<sup>2</sup>

[Serial No.]

**MBNA EUROPE FUNDING PLC**  
(the “**Issuer**”)

*(incorporated with limited liability in England and Wales with registered number 2950906)*

Unconditionally and irrevocably guaranteed by  
**MBNA AMERICA BANK, NATIONAL ASSOCIATION**  
(the “**Guarantor**”)

*(a national banking association organised under the laws of the United States of America)*

**[Specified Currency and Nominal Amount of Tranche]**  
**NOTES DUE [Year of Maturity]**

This Note is one of a Series of Notes of [Specified Currency(ies) and Specified Denomination(s)] each of the Issuer (“**Notes**”). References herein to the Conditions shall be to the Terms and Conditions [endorsed hereon/set out in the First Schedule to the Trust Deed (as defined below) which shall be incorporated by reference herein and have effect as if set out herein] as supplemented, replaced and modified by the relevant information (appearing in the Pricing Supplement (the “**Pricing Supplement**”)) endorsed hereon but, in the event of any conflict between the provisions of the said Conditions and such information in the Pricing Supplement, such information will prevail. Words and expressions defined in the Conditions shall bear the same meanings when used in this Note. This Note is issued subject to, and with the benefit of, the Conditions and a Trust Deed dated 7th May, 1999 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) and made between the Issuer, the Guarantor and Deutsche Trustee Company Limited (formerly called Bankers Trustee Company Limited) as trustee for the holders of the Notes.

The Issuer, subject to and in accordance with the Conditions and the Trust Deed, promises to pay to the bearer hereof on [each Instalment Date and] the Maturity Date or on such earlier date as this Note

1. Delete where the original maturity of the Notes is 183 days or less.

1. Delete where the original maturity of the Notes is more than 183 days.



may become due and repayable in accordance with the Conditions and the Trust Deed, the amount payable on redemption of this Note and to pay interest (if any) on the nominal amount of this Note calculated and payable as provided in the Conditions and the Trust Deed together with any other sums payable under the Conditions and the Trust Deed.

This Note shall not be valid unless authenticated by Deutsche Bank AG London, as Agent.

IN WITNESS whereof this Note has been executed on behalf of the Issuer.

Dated as of the Issue Date.

**MBNA EUROPE FUNDING PLC**

By: \_\_\_\_\_  
**Director/Authorised Officer**

By: \_\_\_\_\_  
**Director/Authorised Officer**

Authenticated without warranty, recourse or liability by  
Deutsche Bank AG London, as Agent.

By: \_\_\_\_\_  
**Authorised Officer**

By: \_\_\_\_\_  
**Authorised Officer**

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**[Conditions]**

[Conditions to be as set out in the First Schedule to this Trust Deed or such other form as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s), but shall not be endorsed if not required by the relevant Stock Exchange]

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**Pricing Supplement**

[Here to be set out the text of the relevant information supplementing,  
replacing or modifying the Conditions which appears in the Pricing  
Supplement relating to the Notes]

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**PART IV****FORM OF RECEIPT****MBNA EUROPE FUNDING PLC**

**[Specified Currency and Nominal Amount of Tranche]  
NOTES DUE [Year of Maturity]**

**Series No. [ ]**

Receipt for the sum of [ ] being the instalment of principal payable in accordance with the Terms and Conditions applicable to the Note to which this Receipt appertains (the “**Conditions**”) on [ ].

This Receipt is issued subject to and in accordance with the Conditions which shall be binding upon the holder of this Receipt (whether or not it is for the time being attached to such Note) and is payable at the specified office of any of the Paying Agents set out on the reverse hereof (and/or any other or further Paying Agents and/or specified offices as may from time to time be duly appointed and notified to the Noteholders).

This Receipt must be presented for payment together with the Note to which it appertains. The Issuer shall have no obligation in respect of any Receipt presented without the Note to which it appertains or any unmatured Receipts.

**MBNA EUROPE FUNDING PLC**

By: \_\_\_\_\_  
**Director/Authorised Officer**

By: \_\_\_\_\_  
**Director/Authorised Officer**

**[ANY UNITED STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.]<sup>1</sup>**

**[BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER).]<sup>2</sup>**

1. \_\_\_\_\_  
Delete where the original maturity of the Notes is 183 days or less.

2. Delete where the original maturity of the Notes is more than 183 days.

**PART V**

**FORM OF COUPON**

On the front:

**MBNA EUROPE FUNDING PLC**

**[Specified Currency and Nominal Amount of Tranche]  
NOTES DUE [Year of Maturity]**

**Series No. [ ]**

[Coupon appertaining to a Note in the denomination of [Specified Currency and Specified Denomination]].

**Part A**

**[For Fixed Rate Notes:**

This Coupon is payable to bearer, separately negotiable and subject to the Terms and Conditions of the said Notes. Coupon for [ ] due on [ ], [ ]

**Part B**

**[For Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes:**

Coupon for the amount due in accordance with the Terms and Conditions endorsed on, attached to or incorporated by reference into the said Notes on [the Interest Payment Date falling in [ ] [ ]/[ ]].

This Coupon is payable to bearer, separately negotiable and subject to such Terms and Conditions, under which it may become void before its due date.]

**MBNA EUROPE FUNDING PLC**

By: **Director/Authorised Officer** \_\_\_\_\_

By: **Director/Authorised Officer** \_\_\_\_\_

**[ANY UNITED STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.]<sup>1</sup>**

**[BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER).]<sup>2</sup>**

1. Delete where the original maturity of the Notes is \_\_\_\_\_ days or less.
  2. Delete where the original maturity of the Notes is more than 183 days.
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**PART VI**

**FORM OF TALON**

On the front:

**MBNA EUROPE FUNDING PLC**

**[Specified Currency and Nominal Amount of Tranche]  
NOTES DUE [Year of Maturity]**

**Series No. [ ]**

[Talon appertaining to a Note in the denomination of [Specified Currency and Specified Denomination]]<sup>1</sup>

On and after [ ] further Coupons [and a further Talon]<sup>2</sup> appertaining to the Note to which this Talon appertains will be issued at the specified office of any of the Paying Agents set out on the reverse hereof (and/or any other or further Paying Agents and/or specified offices as may from time to time be duly appointed and notified to the Noteholders) upon production and surrender of this Talon.

This Talon may, in certain circumstances, become void under the Terms and Conditions endorsed on the Note to which this Talon appertains.

**MBNA EUROPE FUNDING PLC**

By: **Director/Authorised Officer** \_\_\_\_\_

By: **Director/Authorised Officer** \_\_\_\_\_

1. Delete where the Notes are all of the same denomination.
2. Not required on last Coupon sheet.

[ANY UNITED STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.]<sup>1</sup>

[BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SECTION 6049(b)(4) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED AND THE REGULATIONS THEREUNDER).]<sup>2</sup>

1. Delete where the original maturity of the Notes is \_\_\_\_\_ days or less.
  2. Delete where the original maturity of the Notes is more than 183 days.
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On the back of Receipts, Coupons and Talons:

**AGENT**

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**OTHER PAYING AGENT**

Deutsche Bank Luxembourg S.A.  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg  
Luxembourg

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**CERTIFICATE “B”****PART VII****FORM OF CERTIFICATE TO BE PRESENTED BY  
EUROCLEAR OR CLEARSTREAM, LUXEMBOURG****MBNA EUROPE FUNDING PLC****[Title of Notes]****(the “Securities”)**

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organisations appearing in our records as persons being entitled to a portion of the nominal amount set forth below (our “Member Organisations”) substantially to the effect set forth in the temporary Global Note representing the Securities, as of the date hereof, [ ] nominal amount of the above-captioned Securities (i) is owned by persons that are not citizens or residents of the United States, partnerships, corporations or other entities created or organised under the laws of the United States or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source (“United States persons”), (ii) is owned by United States persons that (a) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Sections 1.165-12(c)(1)(iv) (“financial institutions”) purchasing for their own account or for resale, or (b) acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer’s agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in Clause (iii) above (whether or not also described in Clause (i) or (ii)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

If the Securities are of the category contemplated in Section 230.903(b)(3) of Regulation S under the Securities Act of 1933, as amended, then this is also to certify with respect to such principal amount of Securities set forth above that, except as set forth below, we have received in writing, by tested telex or by electronic transmission, from our Member Organisations entitled to a portion of such principal amount, certifications with respect to such portion, substantially to the effect set forth in the temporary Global Note representing the Securities.

We further certify (i) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the temporary Global Note excepted in such certifications and (ii) that as of the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisations with respect to any portion of the part submitted herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as of the date hereof.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal

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proceedings or official enquiries are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings or enquiries.

Dated: \_\_\_\_\_, \_\_\_\_\_<sup>1</sup>

Yours faithfully,

[Euroclear Bank S.A./N.V.  
as operator of the Euroclear  
System]

or

[Clearstream Banking, société anonyme]

By: \_\_\_\_\_

1. To be dated no earlier than the date to which this certification relates, namely (a) the payment date or (b) the Exchange Date.
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**CERTIFICATE “A”****(to be presented by beneficial holder to Euroclear or Clearstream, Luxembourg)****MBNA EUROPE FUNDING PLC****[Title of Notes]****(the “Securities”)**

This is to certify that as of the date hereof, and except as set forth below, the above-captioned Securities held by you for our account (i) are owned by person(s) that are not citizens or residents of the United States, partnerships, corporations or other entities created or organised under the laws of the United States or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source (“United States person(s)”), (ii) are owned by United States person(s) that (a) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(iv)) (“financial institutions”) purchasing for their own account or for resale, or (b) acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the Issuer or the Issuer’s agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition if the owner of the Securities is a United States or foreign financial institution described in Clause (iii) above (whether or not also described in Clause (i) or (ii)) this is to further certify that such financial institution has not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

If the Securities are of the category contemplated in Section 230.903(b)(3) of Regulation S under the Securities Act of 1933, as amended, (the “Act”) then this is also to certify that, except as set forth below, the Securities are beneficially owned by (a) non-U.S. person(s) or (b) U.S. person(s) who purchased the Securities in transactions which did not require registration under the Act. As used in this paragraph, the term “U.S. person” has the meaning given to it by Regulation S under the Act.

As used herein, “United States” means the United States of America (including the States and the District of Columbia); and its “possessions” include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the Securities held by you for our account in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certification excepts and does not relate to [ ] of such interest in the above Securities in respect of which we are not able to certify and as to which we understand exchange and delivery of definitive Securities (or, if relevant, exercise of any right or collection of any interest) cannot be made until we do so certify.

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We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings or official enquiries are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings or enquiries.

Dated:           ,   <sup>1</sup>

Name of person making certification

By: \_\_\_\_\_

1. To be dated no earlier than the fifteenth day prior to the date to which this certification relates, namely (a) the payment date or (b) the Exchange Date.

**THE THIRD SCHEDULE****PROVISIONS FOR MEETINGS OF NOTEHOLDERS**

1. (A) As used in this Schedule the following expressions shall have the following meanings unless the context otherwise requires:

(i) “**voting certificate**” shall mean an English language certificate issued by a Paying Agent and dated in which it is stated:

that on the date thereof Notes (whether in definitive form or represented by a Global Note and not being Notes in respect of which a block voting instruction has been issued and is outstanding in respect of the meeting specified in such voting certificate (a) or any adjourned such meeting) were deposited with such Paying Agent or (to the satisfaction of such Paying Agent) were held to its order or under its control or blocked in an account with a clearing system and that no such Notes will cease to be so deposited or held or blocked until the first to occur of:

- (1) the conclusion of the meeting specified in such certificate or, if later, of any adjourned such meeting; and
- (2) the surrender of the certificate to the Paying Agent who issued the same; and

(b) that the bearer thereof is entitled to attend and vote at such meeting and any adjourned such meeting in respect of the Notes represented by such certificate;

(ii) “**block voting instruction**” shall mean an English language document issued by a Paying Agent and dated in which:

it is certified that Notes (whether in definitive form or represented by a Global Note and not being Notes in respect of which a voting certificate has been issued and is outstanding in respect of the meeting specified in such block voting instruction and any (a) adjourned such meeting) have been deposited with such Paying Agent or (to the satisfaction of such Paying Agent) were held to its order or under its control or blocked in an account with a clearing system and that no such Notes will cease to be so deposited or held or blocked until the first to occur of:

- (1) the conclusion of the meeting specified in such document or, if later, of any adjourned such meeting; and

the surrender to the Paying Agent not less than 48 hours before the time for which such meeting or any adjourned such (2) meeting is convened of the receipt issued by such Paying Agent in respect of each such deposited Note which is to be released or (as the case may require) the Note or Notes ceasing with the agreement of the Paying Agent to be

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held to its order or under its control or so blocked and the giving of notice by the Paying Agent to the Issuer in accordance with paragraph 17 hereof of the necessary amendment to the block voting instruction;

it is certified that each holder of such Notes has instructed such Paying Agent that the vote(s) attributable to the Note or Notes so deposited or held or blocked should be cast in a particular way in relation to the resolution or resolutions to be put to such

- (b) meeting or any adjourned such meeting and that all such instructions are during the period commencing 48 hours prior to the time for which such meeting or any adjourned such meeting is convened and ending at the conclusion or adjournment thereof neither revocable nor capable of amendment;

the aggregate principal amount of the Notes so deposited or held or blocked are listed distinguishing with regard to each such resolution between those in respect of which instructions have been given as aforesaid that the votes attributable thereto should

- (c) be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and

one or more persons named in such document (each hereinafter called a “**proxy**”) is or are authorised and instructed by such

- (d) Paying Agent to cast the votes attributable to the Notes so listed in accordance with the instructions referred to in (c) above as set out in such document;

“**24 hours**” shall mean a period of 24 hours including all or part of a day upon which banks are open for business in both the place where the relevant meeting is to be held and in each of the places where the Paying Agents have their specified offices (disregarding

- (iii) for this purpose the day upon which such meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business in all of the places as aforesaid; and

“**48 hours**” shall mean a period of 48 hours including all or part of two days upon which banks are open for business both in the place where the relevant meeting is to be held and in each of the places where the Paying Agents have their specified offices

- (iv) (disregarding for this purpose the day upon which such meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of two days upon which banks are open for business in all of the places as aforesaid.

A holder of a Note (whether in definitive form or represented by a Global Note) may obtain a voting certificate in respect of such Note

- (B) from a Paying Agent or require a Paying Agent to issue a block voting instruction in respect of such Note by depositing such Note with such Paying Agent or (to the satisfaction of such Paying Agent) by such Note being held to its order or under its control or being blocked in

an account with a clearing system, in each case not less than 48 hours before the time fixed for the relevant meeting and on the terms set out in sub-paragraph (A)(i)(a) or (A)(ii)(a) above (as the case may be), and (in the case of a block voting instruction) instructing such Paying Agent to the effect set out in sub-paragraph (A)(ii)(b) above. The holder of any voting certificate or the proxies named in any block voting instruction shall for all purposes in connection with the relevant meeting or adjourned meeting of Noteholders be deemed to be the holder of the Notes to which such voting certificate or block voting instruction relates and the Paying Agent with which such Notes have been deposited or the person holding the same to the order or under the control of such Paying Agent or the clearing system in which such Notes have been blocked shall be deemed for such purposes not to be the holder of those Notes.

2. The Issuer, the Guarantor or the Trustee may at any time and the Issuer shall upon a requisition in writing in the English language signed by the holders of not less than ten per cent. in nominal amount of the Notes for the time being outstanding convene a meeting of the Noteholders and if the Issuer makes default for a period of seven days in convening such a meeting the same may be convened by the Trustee or the requisitionists. Whenever the Issuer or the Guarantor is about to convene any such meeting the Issuer or the Guarantor, as the case may be, shall forthwith give notice in writing to the Trustee of the day, time and place thereof and of the nature of the business to be transacted thereat. Every such meeting shall be held at such time and place as the Trustee may appoint or approve.

3. At least 21 days' notice (exclusive of the day on which the notice is given and the day on which the meeting is to be held) specifying the place, day and hour of meeting shall be given to the holders of the relevant Notes prior to any meeting of such holders in the manner provided by Condition 13. Such notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting thereby convened but (except for an Extraordinary Resolution) it shall not be necessary to specify in such notice the terms of any resolution to be proposed. Such notice shall include statements, if applicable, to the effect that Notes may, not less than 48 hours before the time fixed for the meeting, be deposited with Paying Agents or (to their satisfaction) held to their order or under their control or blocked in an account with a clearing system for the purpose of obtaining voting certificates or appointing proxies. A copy of the notice shall be sent by post to the Trustee (unless the meeting is convened by the Trustee), to the Issuer (unless the meeting is convened by the Issuer) and to the Guarantor (unless the meeting is convened by the Guarantor).

4. A person (who may but need not be a Noteholder) nominated in writing by the Trustee shall be entitled to take the chair at the relevant meeting or adjourned meeting but if no such nomination is made or if at any meeting or adjourned meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting or adjourned meeting the Noteholders present shall choose one of their number to be Chairman, failing which the Issuer may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.

5. At any such meeting one or more persons present holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-twentieth of the nominal amount of the Notes for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of the relevant
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business. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more persons present holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate a clear majority in nominal amount of the Notes for the time being outstanding PROVIDED THAT at any meeting the business of which includes any of the following matters (each of which shall, subject only to Clause 18(B), only be capable of being effected after having been approved by Extraordinary Resolution) namely:

- (i) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Trustee bound to result in an increase, of the method of calculating the amount payable or modification of the date of payment or, where applicable, of the method of calculating the date of payment in respect of any principal or interest in respect of the Notes;
- (ii) alteration of the currency in which payments under the Notes, Receipts and Coupons are to be made other than pursuant to Condition 3 relating to redenomination;
- (iii) alteration of the majority required to pass an Extraordinary Resolution;
- (iv) the sanctioning of any such scheme or proposal as is described in paragraph 18(I) below; and
- (v) alteration of this proviso or the proviso to paragraph 6 below;

the quorum shall be one or more persons present holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than two-thirds of the nominal amount of the Notes for the time being outstanding.

6. If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any such meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall if convened upon the requisition of Noteholders be dissolved. In any other case it shall stand adjourned to the same day in the next week (or if such day is a public holiday the next succeeding business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall stand adjourned for such period, being not less than 13 clear days nor more than 42 clear days, and to such place as may be appointed by the Chairman either at or subsequent to such meeting and approved by the Trustee). If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may (with the approval of the Trustee) either dissolve such meeting or adjourn the same for such period, being not less than 13 clear days (but without any maximum number of clear days), and to such place as may be appointed by the Chairman either at or subsequent to such adjourned meeting and approved by the Trustee, and the provisions of this sentence shall apply to all further adjourned such meetings. At any adjourned meeting one or more persons present holding Definitive Notes of the relevant one or more Series or voting certificates or being proxies or representatives (whatever the nominal amount of the Notes so held or represented by them) shall (subject as provided below) form a quorum and shall have power to pass any resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the requisite quorum been present PROVIDED THAT at any

adjourned meeting the quorum for the transaction of business comprising any of the matters specified in the proviso to paragraph 5 above shall be one or more persons present holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-third of the nominal amount of the Notes for the time being outstanding.

7. Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in paragraph 3 above and such notice shall state the required quorum. Subject as aforesaid it shall not be necessary to give any notice of an adjourned meeting.

8. Every question submitted to a meeting shall be decided in the first instance by a show of hands and in case of equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Noteholder or as a holder of a voting certificate or as a proxy.

9. At any meeting unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman, the Issuer, the Guarantor, the Trustee or any person present holding a Definitive Note of the relevant Series or a voting certificate or being a proxy (whatever the nominal amount of the Notes so held or represented by him) a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

10. Subject to paragraph 12 below, if at any such meeting a poll is so demanded it shall be taken in such manner and subject as hereinafter provided either at once or after an adjournment as the Chairman directs and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

11. The Chairman may with the consent of (and shall if directed by) any such meeting adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.

12. Any poll demanded at any such meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.

13. The Trustee and its lawyers and any director, officer or employee of a corporation being a trustee of these presents and any director or officer of the Issuer or, as the case may be, the Guarantor and its or their lawyers and any other person authorised so to do by the Trustee may attend and speak at any meeting. Save as aforesaid, but without prejudice to the proviso to the definition of "outstanding" in Clause 1, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of Noteholders or join with others in requesting the convening of such a meeting or to exercise the rights conferred on Noteholders by Condition 9 unless he either produces the Definitive Note or Definitive Notes of which he is the holder or a voting certificate or is a proxy. No person shall be entitled to vote at any meeting in respect of Notes held by, for the benefit of, or on behalf of, the Issuer, the Guarantor or any other Subsidiary of the Guarantor. Nothing herein shall prevent any of the

proxies named in any block voting instruction or form of proxy from being a director, officer or representative of or otherwise connected with the Issuer or the Guarantor.

14. Subject as provided in paragraph 13 hereof at any meeting:

- (A) on a show of hands every person who is present in person and produces a Definitive Note or voting certificate or is a proxy shall have one vote; and
- (B) on a poll every person who is so present shall have one vote in respect of each  $\text{₹}1$  or such other amount as the Trustee may in its absolute discretion stipulate (or, in the case of meetings of holders of Notes denominated in another currency, such amount in such other currency as the Trustee in its absolute discretion may stipulate) in nominal amount of the Definitive Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy.

Without prejudice to the obligations of the proxies named in any block voting instruction any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

15. The proxies named in any block voting instruction need not be Noteholders.

- Each block voting instruction together (if so requested by the Trustee) with proof satisfactory to the Trustee of its due execution on behalf of the relevant Paying Agent shall be deposited by the relevant Paying Agent at such place as the Trustee shall approve not less than 24 hours before the time appointed for holding the meeting or adjourned meeting at which the proxies named in the block voting instruction
16. propose to vote and in default the block voting instruction shall not be treated as valid unless the Chairman of the meeting decides otherwise before such meeting or adjourned meeting proceeds to business. A notarially certified copy of each block voting instruction shall be deposited with the Trustee before the commencement of the meeting or adjourned meeting but the Trustee shall not thereby be obliged to investigate or be concerned with the validity of or the authority of the proxies named in any such block voting instruction.

- Any vote given in accordance with the terms of a block voting instruction shall be valid notwithstanding the previous revocation or amendment of the block voting instruction or of any of the relevant Noteholders' instructions pursuant to which it was executed provided
17. that no intimation in writing of such revocation or amendment shall have been received from the relevant Paying Agent (or such other place as may have been required or approved by the Trustee for the purpose) by the time being 24 hours before the time appointed for holding the meeting or adjourned meeting at which the block voting instruction is to be used.

18. A meeting of the Noteholders shall in addition to the powers hereinbefore given have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to quorum contained in paragraphs 5 and 6 above) namely:

- (A) power to sanction any compromise or arrangement proposed to be made between the Issuer, the Guarantor, the Trustee, any Appointee and the Noteholders, Receiptholders and Couponholders or any of them;
- (B) power to sanction any abrogation, modification, compromise or arrangement in respect of the rights of the Trustee, any Appointee, the Noteholders, the Receiptholders, the Couponholders, the Issuer or the Guarantor against any other or

others of them or against any of their property whether such rights shall arise under these presents or otherwise;

- (C) power to assent to any modification of the provisions of these presents which shall be proposed by the Issuer, the Guarantor, the Trustee or any Noteholder;
- (D) power to give any authority or sanction which under the provisions of these presents is required to be given by Extraordinary Resolution;
- (E) power to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon such committee or committees any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- (F) power to approve of a person to be appointed a trustee and power to remove any trustee or trustees for the time being of these presents;
- (G) power to discharge or exonerate the Trustee and/or any Appointee from all liability in respect of any act or omission for which the Trustee and/or such Appointee may have become responsible under these presents;
- (H) power to authorise the Trustee and/or any Appointee to concur in and execute and do all such deeds, instruments, acts and things as may be necessary to carry out and give effect to any Extraordinary Resolution; and
- (I) power to sanction any scheme or proposal for the exchange or sale of the Notes for or the conversion of the Notes into or the cancellation of the Notes in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash.

19. Any resolution passed at a meeting of the Noteholders duly convened and held in accordance with these presents shall be binding upon all the Noteholders whether present or not present at such meeting and whether or not voting and upon all Receiptholders and Couponholders and each of them shall be bound to give effect thereto accordingly and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof. Notice of the result of the voting on any resolution duly considered by the Noteholders shall be published in accordance with Condition 13 by the Issuer within 14 days of such result being known PROVIDED THAT the non-publication of such notice shall not invalidate such result.

20. The expression "Extraordinary Resolution" when used in these presents means (a) a resolution passed at a meeting of the Noteholders duly convened and held in accordance with these presents by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes cast on such poll; or (b) a resolution in writing signed by or on behalf of all the Noteholders, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders.

- Minutes of all resolutions and proceedings at every meeting of the Noteholders shall be made and entered in books to be from time to time provided for that purpose by the Issuer and any such minutes as aforesaid if purporting to be signed by the Chairman of the meeting at which such resolutions were passed or proceedings transacted shall be conclusive evidence of the matters therein contained and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted.
21. Minutes of all resolutions and proceedings at every meeting of the Noteholders shall be made and entered in books to be from time to time provided for that purpose by the Issuer and any such minutes as aforesaid if purporting to be signed by the Chairman of the meeting at which such resolutions were passed or proceedings transacted shall be conclusive evidence of the matters therein contained and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted.
- 22.(A) If and whenever the Issuer shall have issued and have outstanding Notes of more than one Series the foregoing provisions of this Schedule shall have effect subject to the following modifications:
- (i) a resolution which in the opinion of the Trustee affects the Notes of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Notes of that Series;
  - (ii) a resolution which in the opinion of the Trustee affects the Notes of more than one Series but does not give rise to a conflict of interest between the holders of Notes of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Notes of all the Series so affected;
  - (iii) a resolution which in the opinion of the Trustee affects the Notes of more than one Series and gives or may give rise to a conflict of interest between the holders of the Notes of one Series or group of Series so affected and the holders of the Notes of another Series or group of Series so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Notes of each Series or group of Series so affected; and
  - (iv) to all such meetings all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Notes and Noteholders were references to the Notes of the Series or group of Series in question or to the holders of such Notes, as the case may be.
- (B) If the Issuer shall have issued and have outstanding Notes which are not denominated in Euro in the case of any meeting of holders of Notes of more than one currency the nominal amount of such Notes shall (i) for the purposes of paragraph 2 above be the equivalent in Euro at the spot rate of a bank nominated by the Trustee for the conversion of the relevant currency or currencies into Euro on the seventh dealing day prior to the day on which the requisition in writing is received by the Issuer and (ii) for the purposes of paragraphs 5, 6 and 14 above (whether in respect of the meeting or any adjourned such meeting or any poll resulting therefrom) be the equivalent at such spot rate on the seventh dealing day prior to the day of such meeting. In such circumstances, on any poll each person present shall have one vote for each (or such other Euro amount as the Trustee may in its absolute discretion stipulate) in nominal amount of the Notes (converted as above) which he holds or represents.
23. Subject to all other provisions of these presents the Trustee may without the consent of the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders) prescribe such further regulations regarding the requisitioning and/or the holding of meetings of

Noteholders and attendance and voting thereat as the Trustee may in its sole discretion reasonably think fit.

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**EXECUTED** as a deed by )  
**MBNA EUROPE FUNDING PLC** )  
acting by )  
and )

Director

Director

**EXECUTED** as a deed by )  
**MBNA AMERICA BANK,** )  
**NATIONAL ASSOCIATION** )  
acting by )  
acting under the authority of that )  
company in the presence of: )

**THE COMMON SEAL** of )  
**DEUTSCHE TRUSTEE COMPANY** )  
**LIMITED** (formerly called )  
Bankers Trustee Company Limited) )  
was affixed to this deed in )  
the presence of: )

Authorised Signatory

Authorised Signatory

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**SCHEDULE**

**FORM OF MODIFIED PRINCIPAL TRUST DEED**

**DATED 7th May, 1999**

**MBNA EUROPE FUNDING PLC**

**- and -**

**MBNA AMERICA BANK, NATIONAL ASSOCIATION**

**- and -**

**DEUTSCHE TRUSTEE COMPANY LIMITED  
(formerly called Bankers Trustee Company Limited)**

**TRUST DEED**

**(as modified and restated on 8th May, 2003)**

**relating to a  
6,000,000,000**

**Euro Medium Term Note Programme**

**For MBNA Europe Funding plc and  
MBNA America Bank, National Association:**

**ALLEN & OVERY  
One New Change  
London EC4M 9QQ**

**For Deutsche Trustee Company Limited  
(formerly called Bankers Trustee Company Limited):**

**LINKLATERS  
One Silk Street  
London EC2Y 8HQ**



**DATED 7th May, 1999**

**MBNA EUROPE FUNDING PLC**

**- and -**

**MBNA AMERICA BANK, NATIONAL ASSOCIATION**

**- and -**

**DEUTSCHE TRUSTEE COMPANY LIMITED  
(formerly called Bankers Trustee Company Limited)**

**TRUST DEED**

**relating to a  
6,000,000,000  
Euro Medium Term Note Programme**

**For MBNA Europe Funding plc and  
MBNA America Bank,  
National Association:**

**ALLEN & OVERY  
One New Change  
London EC4M 9QQ**

**For Deutsche Trustee Company Limited  
(formerly called Bankers Trustee Company Limited):**

**LINKLATERS  
One Silk Street  
London EC2Y 8HQ**

IN WITNESS whereof this Fourth Supplemental Trust Deed has been executed as a deed by the Issuer, the Guarantor and the Trustee and entered into the day and year first above written.

**EXECUTED** as a deed by )  
**MBNA EUROPE FUNDING PLC** )  
acting by )  
and )

Director **DUNCAN AKIN**

Director **ROBIN RUSSELL**

**EXECUTED** as a deed by )  
**MBNA AMERICA BANK,** )  
**NATIONAL ASSOCIATION** )  
acting by )  
acting under the authority of that )  
company in the presence of: )

**THOMAS D. WREN**  
**CHRISTOPHER COFFEY**

**THE COMMON SEAL** of )  
**DEUTSCHE TRUSTEE COMPANY** )  
**LIMITED** (formerly called )  
Bankers Trustee Company Limited )  
was affixed to this deed in )  
the presence of: )

Directors **GEOFF NORMAN**  
**ANDREW BROWN**

Authorised Signatory

**Dated 8th May, 2003**

**MBNA EUROPE FUNDING PLC**

**- and -**

**MBNA AMERICA BANK,  
NATIONAL ASSOCIATION**

**- and -**

**DEUTSCHE TRUSTEE COMPANY LIMITED  
(formerly called Bankers Trustee Company Limited)**

**FOURTH SUPPLEMENTAL TRUST DEED**

**further modifying and restating  
the Trust Deed dated 7th May, 1999  
(as previously modified and/or restated)  
relating to an 6,000,000,000  
Euro Medium Term Note Programme**

**For MBNA Europe Funding plc and  
MBNA America Bank,  
National Association:**

**ALLEN & OVERY  
One New Change  
London EC4M 9QQ**

**For Deutsche Trustee Company Limited  
(formerly called Bankers Trustee Company Limited):**

**LINKLATERS  
One Silk Street  
London EC2Y 8HQ**



Exhibit 10.7

The following additional executive officers have entered into an Executive Non-Compete Agreement in the form attached as Exhibit 10 of Form 10-Q for the quarter ended September 30, 1999. The number of shares of restricted stock issued under Section 4 of the agreement is as follows.

<u>Executive Officers</u>	<u>Shares</u>
Frank P. Bramble, Sr.	0
Charles C. Krulak	0
Douglas R. Denton	51,202
Louis J. Freeh	0
Kenneth A. Vecchione	55,140



**AMENDED AND RESTATED  
EMPLOYMENT AND RETIREMENT AGREEMENT**

This Amended and Restated Employment and Retirement Agreement (the "Agreement") is dated as of December 12, 2003, by and between MBNA Corporation, a Maryland corporation with its head office in Wilmington, Delaware (together with its affiliates hereinafter the "Corporation"), and Charles M. Cawley (the "Executive").

The Executive founded MBNA America Bank, N.A. (the "Bank"), the Corporation's principal subsidiary, in 1982 and has served for many years as the leader of the Corporation and the Bank, serving as President and director of the Corporation since its formation and initial public offering in 1991 and as its Chief Executive Officer since October 2002, and serving as Chairman and Chief Executive Officer of the Bank from 1991 to 2002 and President from 1985 to 2002.

The Executive is retiring as Chief Executive Officer and President of the Corporation effective December 30, 2003. During his long career the Executive has acquired unparalleled knowledge and experience in management and in the credit card and consumer lending businesses and has demonstrated very significant leadership skills. The Corporation wishes to ensure that the Executive's knowledge, experience and leadership abilities continue to be available to the Corporation and are not available to the Corporation's competitors. The Corporation has determined that the best way to ensure these results is to enter into this Agreement to continue employment of the Executive as a Senior Advisor until August 15, 2005 and provide certain benefits to the Executive, all as set forth in this Agreement. In return, during this employment period and beyond the Corporation will have the exclusive benefit of the Executive's services and the Executive's agreement never to compete with the Corporation. The Corporation believes that this continued exclusive benefit of the Executive's services and the Executive's agreement never to compete amply justify the payments and benefits to the Executive under this Agreement.

To reflect these arrangements the Executive and the Corporation have entered into this Agreement. This Agreement replaces the Retirement and Consulting Agreement dated December 6, 2002 (the "Prior Agreement"), and all other agreements relative to the subject matter herein between the Corporation and the Executive, except as expressly provided in this Agreement.

In consideration of the above matters and for other good and valuable consideration, the sufficiency of which each of the parties acknowledge, the Corporation and the Executive, intending to be legally bound hereby, agree to the following terms and conditions.

1. Continued Employment; Retirement Date.

As of the close of business on December 30, 2003 (the "Effective Date"), the Executive shall retire as Chief Executive Officer, President and Director of the Corporation and as Director of the Bank. The Executive agrees that his resignation is irrevocable and that no further action is required for it to become effective. After the Effective Date, the Executive shall continue employment with the Corporation serving as a Senior Advisor throughout the period ending August 15, 2005 (the "Retirement Date"), as of which date he shall retire from the Corporation's employ. The period from the Effective Date through and including the Retirement Date is the "Employment Period".

2. Employment Services.

(a) During the Employment Period the Executive shall be a Senior Advisor to members of the Executive Committee of the Bank and agrees to be available at all reasonable times upon reasonable notice to provide assistance on such matters as requested by members of the Executive Committee of the Bank on behalf of the Bank or the Corporation from time to time. Such services may include advice and assistance with new products and markets, new affinity or endorsing relationships or the renewal of existing relationships, and other significant business matters of the Corporation, and the Corporation's efforts to support education, charitable and civic organizations and other activities in the communities in which it operates. Beginning with the Effective Date, the Executive will cease being an officer of the Corporation and therefore will cease having any authority to bind the Corporation (by any act, representation or omission whatsoever) or perform any policy-making function on its behalf.

(b) Unless the Corporation has given its prior specific written consent, the Executive shall not accept employment with or otherwise in any way agree to provide business, commercial or professional services to any other person in any manner which would significantly impair the ability of the Executive to provide the services to the Corporation contemplated by Section 2(a) of this Agreement.

(c) During the Employment Period and thereafter, the Executive shall cooperate with and make himself reasonably available to the Corporation to assist the Corporation with regard to any matters of which the Executive had knowledge or in which he was involved; provided that the Executive shall not be required to take any action that would be adverse to the Executive's legal interest. The Corporation will reimburse the Executive for reasonable out-of-pocket expenses for travel, accommodations, meals and other expenses incurred in the performance of the services.



3. Compensation.

(a) During the Employment Period the Executive shall receive a base salary in the amount of Two Million Five Hundred Thousand Dollars (\$2,500,000) per annum in the same manner and at the same times as salaries are paid to employees generally. The Executive shall not be eligible to receive an annual bonus or any other compensation for his services during the Employment Period, except as provided in Sections 4 and 9(b). Except as may be specifically otherwise provided herein, during the Employment Period the Corporation shall provide to the Executive those benefits (including health, life insurance and disability benefits for the Executive and his spouse) provided by the Corporation to its full-time employees generally, consistent with the benefit elections made by the Executive in accordance with the standard Corporation benefit procedures.

(b) During the Employment Period the Executive shall be entitled to receive any and all other benefits available to employees of the Corporation generally.

(c) Effective on the Retirement Date, the Executive shall cease to be an employee of the Corporation and shall no longer receive any compensation or benefits from the Corporation except as provided in this Agreement or in a plan or agreement that expressly provides that the compensation or benefit survives or is effective on or after termination of employment. The Executive shall commence receiving payments under the Supplemental Executive Retirement Plan (“SERP”) as of the Retirement Date, subject to all of the terms and conditions applicable to the operation of the SERP.

4. Other Benefits.

Beginning on the Effective Date, and continuing for the remainder of the Executive’s life, the Corporation agrees to provide the Executive with the benefits described in this Section 4.

(a) Office and Administrative Support. The Corporation will provide at its expense an office, including furnishings and equipment, at the Corporation’s facilities in Greenville, Delaware, comparable to the Executive’s current office immediately prior to the Effective Date. The Corporation will also provide at its expense secretarial support at the office.

(b) Airplane Use. The Corporation will permit the Executive to use corporate aircraft for all corporate business travel and for all personal travel for himself and his spouse. Other persons may be included in this travel provided that the Executive or his spouse is also on the airplane. The aircraft will be a Falcon 2000 or another eight-seat or larger jet aircraft selected by the Corporation or, for overseas travel, a larger aircraft but not for more than six round trips per year. The aircraft will not be dedicated to the Executive's use and the Executive will give as much notice of any travel for which the Executive requests a corporate aircraft for personal use as reasonably possible, but not less than 72 hours, except for travel in response to a personal emergency. No more than one aircraft will be available for the Executive's personal use at any time. The aggregate incremental cost to the Corporation for the Executive's personal use of corporate aircraft will not exceed \$250,000 in any calendar year. Aggregate incremental cost shall include the cost to the Corporation for fuel, travel expenses for the crew, landing fees, airport taxes, airport fees, customs fees and all in-flight food.

(c) Medical Benefits. The Corporation will provide, at its cost, to the Executive after age 65 and his spouse after age 65 Medicare supplemental health insurance coverage. Upon the death of the Executive, the Corporation agrees to continue Medicare supplemental health insurance coverage for the Executive's spouse for the remainder of her life.

5. Non-competition.

(a) Because of the Executive's unparalleled knowledge and experience in the credit card and consumer lending industry and his detailed knowledge of the Corporation's business, plans, people and other confidential information, the Corporation would suffer very substantial harm if the Executive engaged, directly or indirectly, in competition with the Corporation. The Corporation has provided financial incentives to the Executive to in part ensure that he will not compete with the Corporation. Therefore, in consideration of the payments and other benefits to the Executive by the Corporation under this Agreement, and recognizing that the Executive's receipt of certain post-retirement benefits under various Corporation plans, such as the SERP, is conditioned on the Executive's not competing with the Corporation, the Executive agrees during his lifetime (the "Restricted Period"), the Executive will not, directly or indirectly, in any capacity (including as director, officer, employee, stockholder, partner, owner, consultant or advisor) provide services of any kind, anywhere in the world, to any issuer of MasterCard, VISA, American Express, Discover Card or any other type of credit card or charge card, any bank or other lender which makes consumer loans of any kind, or any affiliate of any such entity. These services include, but are not limited to, services relating to (i) sales, endorsement, co-branding or similar agreements, (ii) product development and marketing, (iii) credit approval and collections, (iv) customer service, (v) funding or other treasury matters, (vi) loan portfolio acquisitions, mergers or other acquisitions, (vii) financial, legal or accounting matters, or (viii) acquisition of or advice or assistance to others to acquire the Corporation or the Bank or beneficial ownership of

10% or more of the Corporation's Common Stock. In addition, the Executive agrees that during the Restricted Period, the Executive will not provide services to any affinity group or commercial organization, or any affiliate of such entity, relating to an affinity or co-branded credit card or consumer loan program with the Corporation or any other entity. The Executive agrees that these restrictions, including their scope and duration, are reasonable, and that the consideration for these restrictions is adequate.

(b) The obligations of the Executive under this Section 5 shall survive the termination of this Agreement without regard to the reason for such termination.

## 6. Confidentiality.

(a) Following the end of the Executive's employment by the Corporation, or sooner upon request of the Corporation, the Executive will deliver to the Corporation the originals and all copies of all records and other documents acquired in the Executive's capacity as an employee of the Corporation which relate to the Corporation or its business, customers, vendors or employees and which are in the Executive's possession or within the Executive's control, other than records and other documents which (i) are a matter of public record, (ii) relate directly and primarily to the Executive's compensation and benefits as an employee of the Corporation, (iii) the Corporation gives the Executive permission to retain in the Executive's possession, or (iv) are needed to perform services as provided under this Agreement. The Executive shall not retain or deliver to any other person any copies of any such records or documents. Upon the Executive's request, the Corporation will promptly provide to the Executive a copy of each document that (i) relates directly to the Executive's compensation and benefits as an employee of the Corporation; (ii) is needed by the Executive to perform services as provided under this Agreement; or (iii) is requested by the Executive and is not deemed confidential by the Corporation in its sole discretion. Section 6(b) will apply to any documents delivered by the Corporation to the Executive pursuant to clauses (i) and (ii) of the preceding sentence.

(b) The Executive will not use for the Executive's benefit or for the benefit of any person other than the Corporation, and, except as necessary or appropriate in the performance of his duties to the Corporation, including under this Agreement, will not ever disclose to any person any confidential information concerning the Corporation. The Executive acknowledges that all information concerning the Corporation, its plans, programs, policies, finances, customers, vendors, employees and business shall be deemed confidential unless a matter of public record or unless publicly known otherwise than through a breach by the Executive of this Agreement. Disclosure or use which otherwise would constitute a breach of this Section 6 shall not be deemed a breach thereof to the extent such disclosure or use is required by law or is not done intentionally or in a grossly negligent manner. In addition, (i) nothing in this Agreement shall prohibit the Executive from providing truthful testimony concerning the Corporation to governmental, regulatory or self-regulatory authorities and (ii) the parties (and their respective employees, representatives and agents) may disclose to any and all persons, without any limitations of any kind, the tax treatment and tax structure of this Agreement

and all materials of any kind (including opinions and other tax analysis) that are provided to either party related to such tax treatment and structure.

(c) The obligations of the Executive under this Section 6 shall survive the termination of this Agreement without regard to the reason for such termination.

7. Term.

(a) The Executive may terminate this Agreement at any time upon written notice to the Corporation of such termination, provided that the provisions of Sections 5 and 6 shall survive the termination of this Agreement, without regard to the reason for such termination. Any such termination by the Executive shall be treated as a voluntary termination of employment by the Executive for purposes of Section 9(b) of this Agreement. If the Executive terminates this Agreement prior to August 15, 2005, the provision of Section 4.01(a) of the SERP requiring 12-months written notice for voluntary termination of employment shall not apply to the Executive and is hereby irrevocably waived by the Corporation.

(b) The Corporation may terminate this Agreement only if the Executive fails without reasonable justification to provide in any material respect services requested pursuant to this Agreement or otherwise materially breaches this Agreement and, in either case, the Executive fails to cure such breach within thirty (30) days after receipt of notice thereof from the Board of Directors of the Corporation as authorized by not less than two-thirds (2/3) of all of the members thereof and there is a determination of such breach in a binding and final judgment, order or decree of a court or other agency of competent jurisdiction, in effect after exhaustion or lapse of all rights of appeal, and provided that the provisions of Sections 5 and 6 shall survive the termination of this Agreement, without regard to the reason for such termination.

(c) Upon the Executive's death or disability, the Employment Period shall end and Section 2 and Section 3 of this Agreement shall terminate.

8. Taxes.

The Corporation shall report amounts paid by the Corporation to the Executive or the benefits received by the Executive under this Agreement to federal, state and local tax authorities as required by law. The Corporation may withhold from any amounts payable to the Executive all federal, state or local taxes or payments as may be required by law or as may be expressly authorized by the Executive to be withheld, deducted or reduced from those amounts.

9. Other Terms.

(a) Subject to Section 9(c), this Agreement represents the entire agreement, and supersedes all prior and contemporaneous agreements and understandings, relative to the same subject matter, including the Prior Agreement.

(b) Outstanding stock options and restricted stock awards held by the Executive shall be administered in accordance with the terms of the Corporation's plan authorizing the grant of the awards, the agreements pursuant to which the awards were issued and the Corporation policies relating to the awards as from time to time in effect. Notwithstanding the preceding sentence, the restricted shares held by the Executive shall vest 50% on the date of this Agreement, 25% on August 15, 2004 and 25% on August 15, 2005, or sooner upon the Executive's death or "disability" or a "change in control" of the Corporation, as such terms are defined in the Corporation policies relating to the awards, or upon the termination by the Corporation of the Executive's employment. Notwithstanding the foregoing, if either the Corporation terminates this Agreement in accordance with Section 7(b) of this Agreement which permits the Corporation to terminate this Agreement due to the Executive's failure without reasonable justification to provide in any material respect services requested under this Agreement or due to the Executive's other material breach of this Agreement, or the Executive voluntarily terminates his employment with the Corporation, any such unvested restricted shares shall not vest and will be immediately forfeited and canceled. When vesting restricted shares pursuant to this Section 9(b) or otherwise, the Corporation shall select in its sole discretion the specific shares to vest. The Corporation and the Executive agree that the restricted shares granted to the Executive on January 2, 2004 are cancelled as of the date the parties have executed this Agreement.

(c) Except as provided in Section 9(b) and as provided below, this Agreement does not affect or amend prior agreements as to the Corporation's benefit plans available generally to employees, the Corporation's SERP, Supplemental Executive Insurance Plan, stock option and restricted stock agreements, any Executive Deferred Compensation Plan agreements with the Executive. Notwithstanding the first sentence of this Section 9(c), the Corporation and the Executive agree that the term "competition" in the Corporation's SERP and in the Policies adopted under the Corporation's 1997 Long Term Incentive Plan shall be interpreted to include the activities described in Section 5 of this Agreement, and the portions of this agreement concerning the term "competition" as used in SERP and in such Policies shall survive any termination of this Agreement. Notwithstanding the first sentence of this Section 9(c), the Corporation and the Executive agree that the Change of Control Agreement between the Corporation and the Executive dated July 8, 2003 (the "Change of Control Agreement") shall terminate as of the Effective Date of this Agreement except that the tax gross-up payments related to the imposition of excise taxes and all other terms of Section 9 of the Change of Control Agreement shall continue in full force and effect and Section 9 of the Change of Control Agreement in its entirety is hereby incorporated by reference into this Agreement, except that all references therein to "Company" shall be read to mean "Corporation" (as defined herein) and all references to the "Agreement" shall be read to mean this Agreement. Section 9 of the Change of Control Agreement as incorporated by reference herein shall survive any termination of this Agreement. Notwithstanding the fact that the change of control agreement no longer applies, the Corporation and the Executive agree that the definition of "change of control" therein continues to apply for purposes of the 1997 Long Term Incentive Plan and the SERP. Notwithstanding the first sentence of this Section 9(c), the Corporation and the Executive agree that, as applied to the Executive, the definition of "cause" in Section 2.05 of the SERP is amended in its entirety to read "conviction of the Member for a crime that constitutes a felony for embezzling Corporate funds or for theft of Corporate property", and that, as applied to the Executive, the definition of "cause" in the Policies adopted under the Corporation's 1997 Long Term Incentive Plan is amended in its entirety to read "conviction of the participant for a crime that constitutes a felony for embezzling Corporate funds or for theft of Corporate property". The Corporation and the Executive agree that the above amended definitions of "cause" under the SERP and under the Policies adopted under the Corporation's 1997 Long Term Incentive Plan shall survive any termination of this Agreement.

(d) This Agreement may not be amended or changed, and neither party shall be deemed to have waived any provision of this Agreement, unless the amendment or change or waiver is set forth in a writing signed by a duly authorized officer of the Corporation and by the Executive. The failure of either party to enforce any term of this Agreement shall not constitute a waiver of any rights or deprive the party of the right to insist thereafter upon strict adherence to that or any other term of this Agreement, nor shall a waiver of any breach of this Agreement constitute a waiver of any preceding or succeeding breach.

(e) The Executive acknowledges that the Executive has read and understands each provision of this Agreement and has had an opportunity for counsel of the Executive's choice to review this Agreement and that no promises or inducements have been made for the Executive to sign this Agreement except as expressly set forth in this Agreement.

(f) This Agreement shall be interpreted under the laws of the State of Delaware, without regard to principles of conflicts of laws.

(g) The Executive agrees that any breach by the Executive of any provision of Section 5 or Section 6 of this Agreement would cause the Corporation irreparable damage and that no remedy available at law would be adequate for such violation. Accordingly, in addition to any other remedies available at law or in equity or under any Corporation benefit or compensation plan or this Agreement, the Corporation may immediately seek enforcement of this Agreement in a court of appropriate jurisdiction by means of specific performance or injunction, without posting of a bond, or otherwise.

(h) It is the intention of the parties that this Agreement shall be enforceable to the fullest extent allowed by law. In the event that a court holds any provision of Section 5 or Section 6 of this Agreement to be unenforceable, the parties agree that, if allowed by law, that provision shall be reduced to the degree necessary to render it enforceable without affecting the rest of this Agreement, and, if such reduction is not allowed by law, the parties shall promptly agree in writing to a provision to be substituted therefor which will have an effect as close as possible to the invalid provision that is consistent with applicable law. The invalidity or unenforceability of any provision of this Agreement shall not affect or limit the validity and enforceability of the other provisions hereof.

(i) The Corporation shall pay all costs and expenses, including reasonable attorneys' fees, of the Corporation and the Executive in connection with any legal proceeding or action, whether or not instituted by the Corporation or the Executive, relating to the interpretation or enforcement of any provision of this Agreement, provided that if the Executive instituted the proceeding and the judge, arbitrator or other person presiding over the proceeding affirmatively finds that the Executive instituted the proceeding in bad faith, the Executive shall pay all costs and expenses, including reasonable attorneys' fees, of the Executive.

(j) This Agreement may not be assigned by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's spouse or his estate and legal representatives. This Agreement shall inure to the benefit of and be binding upon and enforceable by the Corporation's successors and assigns, including any successor through merger or purchase of substantially all the assets of the Corporation. The Corporation will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. As used in this Agreement, "Corporation" shall mean the Corporation as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes the obligation to perform this Agreement by operation of law, agreement or otherwise.

(k) The Corporation and the Executive agree that Sections 9(b), 9(c), 9(i), 9(j), 9(k) and 9(l) survive the termination of this Agreement and shall inure to the benefit of and be binding upon and enforceable by the Corporation and the Executive.

(l) The Corporation and the Executive agree that any rights of the Executive which inured to his benefit prior to this Agreement for the Executive's indemnification from the Corporation and for coverage under the Corporation's D&O policy would continue and survive this Agreement.



IN WITNESS WHEREOF, the parties have executed this Agreement on March 8, 2004.

EXECUTIVE

/s/ Charles M. Cawley

Charles M. Cawley

MBNA CORPORATION

By: /s/ Louis J. Freeh

Louis J. Freeh  
General Counsel

ATTEST:

/s/ John W. Scheflen

John W. Scheflen  
Secretary



Exhibit 10.21

The following additional executive officers of MBNA Corporation have entered into a Change of Control Agreement identical to the agreement attached as Exhibit 10.3 of Form 10-Q for the quarter ended June 30, 2003, except that the multiplier in Section 6(d)(i)(B) is one and one-half times the sum indicated:

Charles C. Krulak

Louis J. Freeh



**EXHIBIT 12: COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDEND REQUIREMENTS**  
(dollars in thousands)

	For the Twelve Months Ended December 31,	
	2003	2002
<b>INCLUDING INTEREST ON DEPOSITS</b>		
Earnings:		
Income before income taxes	\$ 3,659,005	\$ 2,785,416
Fixed charges	1,525,810	1,616,123
Interest capitalized during period, net of amortization of previously capitalized interest	(14,579 )	(8,642 )
Earnings, for computation purposes	<u>\$ 5,170,236</u>	<u>\$ 4,392,897</u>
Fixed Charges and Preferred Stock Dividend Requirements:		
Interest on deposits, short-term borrowings, and long-term debt and bank notes, expensed or capitalized	\$ 1,524,040	\$ 1,612,883
Portion of rents representative of the interest factor	1,770	3,240
Fixed charges	1,525,810	1,616,123
Preferred stock dividend requirements	22,009	22,363
Fixed charges and preferred stock dividend requirements, including interest on deposits, for computation purposes	<u>\$ 1,547,819</u>	<u>\$ 1,638,486</u>
Ratio of earnings to combined fixed charges and preferred stock dividend requirements, including interest on deposits	3.34	2.68
<b>EXCLUDING INTEREST ON DEPOSITS</b>		
Earnings:		
Income before income taxes	\$ 3,659,005	\$ 2,785,416
Fixed charges	418,004	360,596
Interest capitalized during period net of amortization of previously capitalized interest	(14,600 )	(8,663 )
Earnings, for computation purposes	<u>\$ 4,062,409</u>	<u>\$ 3,137,349</u>
Fixed Charges and Preferred Stock Dividend Requirements:		
Interest on short-term borrowings, and long-term debt and bank notes, expensed or capitalized	\$ 416,234	\$ 357,356
Portion of rents representative of the interest factor	1,770	3,240
Fixed charges	418,004	360,596
Preferred stock dividend requirements	22,009	22,363
Fixed charges and preferred stock dividend requirements, excluding interest on deposits, for computation purposes	<u>\$ 440,013</u>	<u>\$ 382,959</u>

Ratio of earnings to combined fixed charges and preferred stock dividend requirements,  
excluding interest on deposits

9.23

8.19

The ratio of earnings to combined fixed charges and preferred stock dividend requirements is computed by dividing (i) income before income taxes and fixed charges less interest capitalized during such period, net of amortization of previously capitalized interest, by (ii) fixed charges and preferred stock dividend requirements. Fixed charges consist of interest, expensed or capitalized, on borrowings (including or excluding deposits, as applicable), and the portion of rental expense which is deemed representative of interest. The preferred stock dividend requirements represent the pre-tax earnings which would have been required to cover such dividend requirements on the Corporation's Preferred Stock outstanding.









We have an affinity for you.™



2003 ANNUAL REPORT





# Commitment

## MBNA PRECEPTS

### MBNA IS A COMPANY OF PEOPLE COMMITTED TO:

- Providing the Customer with the finest products backed by consistently top-quality service.
- Delivering these products and services efficiently, thus ensuring fair prices to the Customer and sound earnings for the stockholder.
- Treating the Customer as we expect to be treated—putting the Customer first every day—and meaning it.
- Being leaders in innovation, quality, efficiency, and Customer satisfaction. Being known for doing the little things and the big things well.
- Insisting on an inclusive work environment where every single person is given the encouragement, support, and opportunity to be successful.
- Expecting and accepting from ourselves nothing short of the best. Remembering that each of us, the people of MBNA, makes the unassailable difference.

1986



## CONTENTS

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Getting the right Customers and keeping them is the foundation of our business. It demands a single-minded commitment to Customer satisfaction. Meeting this commitment requires tough standards, good people, and constant attention to the importance of each individual Customer. Introduced during the summer of 1986, the precepts are displayed throughout the company, and each person has a copy. These words have been reviewed every year since they were written, and not one word has ever been changed. (In 2000, a new precept was added.) These precepts are simple and straightforward, and we mean every single one.

2	2003 Financial Highlights
3	Letter to Stockholders
4	Who We Are
6	How We Market
8	How We Lend
9	How We Keep Customers
10	Funding
11	Financials
104	MBNA Corporation Board of Directors, MBNA Principal Officers, MBNA Office Locations



# Consistency

## 2003 FINANCIAL HIGHLIGHTS

Year Ended December 31,	2003	2002	2001	2000	1999
<i>(dollars in thousands, except per share amounts)</i>					
<b>Per Common Share Data</b>					
<b>(a)</b>					
Earnings	\$ 1.82	\$ 1.37	\$ 1.31	\$ 1.05	\$ .84
Earnings—assuming dilution	1.79	1.34	1.28	1.02	.80
Dividends (b)	.36	.27	.24	.21	.19
Book value	8.53	6.96	5.94	5.02	3.31
<b>Ratios</b>					
Return on average total assets	4.16	% 3.67	% 4.16	% 3.94	% 3.62
Return on average stockholders' equity	22.98	21.29	24.07	25.79	27.18
Stockholders' equity to total assets	18.80	17.22	17.16	17.13	13.61
Sales and cash advance volume	\$ 184,293,873	\$ 160,046,164	\$ 142,261,636	\$ 125,683,731	\$ 105,806,935
<b>Financial Statement Data</b>					
Net interest income (c)	\$ 2,350,373	\$ 2,074,575	\$ 1,657,340	\$ 1,395,015	\$ 1,175,759
Other operating income (c)	7,825,480	6,752,923	6,673,316	4,920,403	4,193,527
<b>Net Income (a)</b>	<b>2,338,104</b>	<b>1,765,954</b>	<b>1,694,291</b>	<b>1,312,532</b>	<b>1,024,423</b>
Deposits	31,836,081	30,616,216	27,094,745	24,343,595	18,714,753
Stockholders' equity	11,113,040	9,101,319	7,798,718	6,627,278	4,199,443
<b>Managed Data</b>					
Total managed loans	\$ 118,493,560	\$ 107,257,842	\$ 97,496,051	\$ 88,790,721	\$ 72,255,513

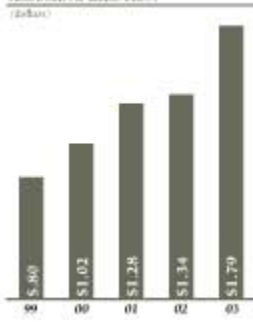
(a) For full year 2002, net income excluding the change in the estimated value of accrued interest and fees in September 2002 would have been \$1.93 billion or \$1.47 per common share—assuming dilution.

(b) On January 22, 2004, the Board of Directors approved an increase of 20% in the quarterly dividend to \$.12 per common share.

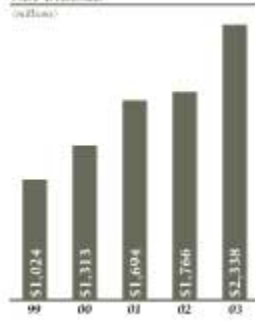
(c) For purposes of comparability, certain prior period amounts have been reclassified. These reclassifications did not affect net income.

This annual report includes managed data. A reconciliation of the managed data to the most directly comparable GAAP data is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the annual report.

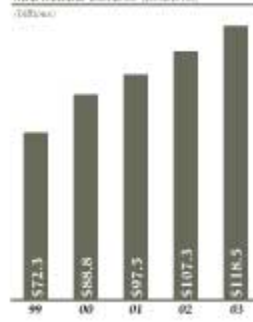
EARNINGS PER  
COMMON SHARE—  
ASSUMING DILUTION  
(dollars)



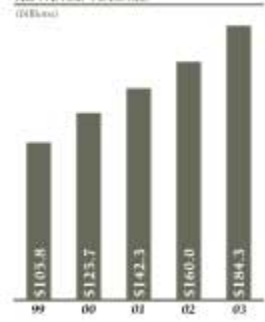
NET INCOME  
(dollars)



MANAGED LOANS (ENDING)  
(dollars)



SALES AND CASH  
ADVANCE VOLUME  
(dollars)



## DEAR STOCKHOLDERS

On behalf of all the people of MBNA, we are pleased to report another year of solid financial performance.

For the 13th consecutive year, we have recorded increases in both our earnings and our quarterly dividends. Net income for 2003 increased to \$2.34 billion, or \$1.79 per common share, and the quarterly dividend rate rose 20% to \$.12 per common share.

Everything that happens at MBNA is the direct result of the commitment and dedication of the people who work here. We are very proud of the people of MBNA and what they have accomplished over a long period of time.

Several notable achievements helped drive our performance in 2003:

Growing managed loans \$11.2 billion to \$118.5 billion.

The acquisition of 10.7 million new accounts with characteristics that are consistent with our existing cardholders.

The signing of 384 new endorsements and the renewal of more than 1,400 group contracts—remaining the leader in affinity marketing.

Controlling loan losses at 5.22%—lower than published industry levels.

MBNA is an international financial services company providing lending, insurance, and deposit account products and services. Our core business is to provide credit card services to affinity groups, financial institutions, and consumers. We provide a service that enables people to have the things they need today while paying for them sensibly out of future income. It is a good business and an enduring one. It is a business that if done right, can produce consistent profitability—something we have been able to do for 22 years through varying economic cycles.

We continue to strengthen the company through investments in new products and services. Our marketing franchise consists of more than 5,000 organizations that endorse our products throughout the United States, the United Kingdom, Ireland, Canada, and Spain—and these organizations will help ensure a continuing supply of new Customers.

On December 30, 2003, Charlie Cawley, MBNA's CEO, retired after more than 31 years with MBNA and its former parent company. We thank him for his leadership, vision, and determination, and for his contributions to MBNA's success and growth.

This year's annual report discusses the factors that shaped 2003 results. It also explores MBNA's approach to its business—the mix of beliefs, practices, and commitments that define us. We believe it is a solid formula for success.

Sincerely,



*Bruce J. Hammonds*  
Bruce Hammonds

*Randy Lerner*  
Randy Lerner

*John R. Cochran*  
John Cochran



# Credit Card Lending

MBNA differs from its competitors  
by how we market, how we lend,  
and how we satisfy our Customers.

## WHO WE ARE



MBNA Corporation is an international financial services company that provides lending, insurance, and deposit account products and services through MBNA America Bank, N.A., in the United States; MBNA Europe Bank Limited in the United Kingdom, Ireland, and Spain; and MBNA Canada Bank in Canada. Our core business is lending through credit cards to consumers.



The credit card business is a good business for a number of reasons. Credit cards free people from the need to carry cash and let them have the things they need today and pay for them out of future income. It is a business that has universal demand. Demand for our product cuts across industry, geography, and Customer type. Literally tens of millions of potential additional Customers already could qualify for our cards in the countries in which we operate, and economic growth and development bring millions more into the market every year. That leaves plenty of opportunities to add new accounts and grow our business.

It is a business with no industry, geographic, or Customer concentrations. Our loans are spread across the five countries where we do business with more than 30 million active borrowers whose average account balance is \$3,800—so credit card lending produces relatively low-risk assets.

It is a business that is reliably profitable. Done right, the credit card business is a business that can be managed and priced to achieve consistent profitability—something MBNA has been able to do since 1982.



MBNA has been successful by carefully differentiating the company from its competitors through our excellence in marketing, lending, and providing service to our Customers. We predominately market our products through affinity marketing—selling to people with a common interest.



MBNA's preeminence in the affinity credit card market can be traced to our ability to do many things. We understand the importance of partnering with organizations that people care about. We provide products that enable consumers to express their pride, passion, and interests and be rewarded for it. In addition, we provide our affinity partners with the ability to strengthen their relationship with their members.

Our approach to affinity marketing is based on a simple yet demanding formula: use our understanding of people who share common interests to craft the best products, marketing programs, and lending strategies, and then provide Customers



#### MBNA Europe

with truly superior service and attention. Our expertise has enabled us to develop successful partnerships with more than 5,000 endorsing organizations.

Our approach also has enabled us to successfully expand internationally. Just five years ago, our international operations represented just 8% of our managed loan portfolio. In 2003, the figure grew to 18%.



In 1993, MBNA entered its first international market in the United Kingdom, and since then has become the second largest credit card lender in the United Kingdom with \$17.2 billion in loans

and a 15% market share. MBNA Europe has earned the endorsement of more than 900 membership organizations and financial institutions, including Thomas Cook, Abbey, Law Society of Ireland, Royal College of Physicians of England, Oxford University, the WWF, Alliance & Leicester, and Manchester United. In 2003, we added new endorsements including the British Heart Foundation, National Geographic, and Banco Cooperativo in Spain, among many others.



#### MBNA Canada



Our experience in the United Kingdom helped us expand our international business by opening a

bank in Canada in 1997. Since then, MBNA Canada has generated \$3.6 billion in loans and 2.5 million accounts and gained a market share of 9%. In 2003, we added 79 new endorsements in Canada including Sheridan College, the Toronto Blue Jays, and the Edmonton Oilers.

MBNA's international operations are an important part of the company's future. We have been successful in other countries because we follow the same principles that made us an industry leader in the United States.

Our \$12 billion Consumer Finance business includes installment and revolving unsecured loan products. Customers use these non-credit card products to consolidate loans or for large expenses such as home improvements or college tuition.



# Common Interest

Two of MBNA's largest market sectors are Professionals and Educators, which together total more than 7.5 million accounts.

## HOW WE MARKET

MBNA's business is the business of affinity

Affinity marketing seeks to understand and identify people sharing a special bond or relationship—people united by some shared experience, common pursuit, belief, or other unifying consideration—and to market products that help satisfy and promote that sense of affinity and belonging.



**Enthusiasts for virtually all major sports, including baseball, football, basketball, hockey, golf, tennis, and motorsports.** More than 700 sports-related organizations, including the National Football League, Major League Baseball, NASCAR, and the PGA, endorse MBNA products, and more than 7.8 million people now carry MBNA cards featuring their favorite team or race car driver.

**College and university alumni and loyalists.** MBNA is the official credit card of more than 800 colleges and universities. Familiar names on our cards include Penn State University, the University of California at Los Angeles, the University of North Carolina, and Stanford University.

MBNA is the recognized leader in credit card affinity marketing. Since we first entered the business in 1982, we have marketed our products and services through more than 5,000 endorsing organizations, serving the needs of more than 50 million Customers.

Our business sectors encompass an exceptionally broad range of affinity groups. Today, we enjoy endorsements internationally from organizations representing such groups as:



**Professionals including physicians, dentists, attorneys, educators, military, and law enforcement.**

Our Professional sector has more than 1,400 professional organization endorsements, including the Association of Trial Lawyers of America, the American Medical Student Association, and the American Institute of Architects. The sector added more than 1 million new accounts in 2003.

**Special interest groups.** MBNA provides credit cards for members of a variety of clubs, associations, and other organizations devoted to supporting special causes. Endorsing environmental groups, for example, include the Nature Conservancy, Sierra Club, and National Audubon Society.



**More than 350 financial institutions.** MBNA products are sold to Customers of such well-known names as Wachovia Bank, SunTrust Bank, and PNC Bank. These financial institution partnerships helped generate 750,000 new accounts in 2003 through a network of ~~more than 15,000 bank branches.~~

**Alliances with nearly 100 prominent businesses.** Our alliances with other companies allow us to reach out to Customers of L.L. Bean, Cendant, Barnes & Noble, Carlson Wagonlit Travel, and Amtrak among others.

In 2003, MBNA earned 384 new endorsements from such high-quality organizations as Merrill Lynch, eBay, Gander Mountain, the American Institute of Chemical Engineers, the California Teachers Association, and Arizona State University. Affinity marketing enabled us to acquire 10.7 million new accounts in 2003. The marketing programs we used included a spectrum of techniques and channels:

**Direct Mail** is one of our most important marketing tools. MBNA's in-house, full-service advertising agency develops thousands of customized mail campaigns for our affinity groups. Keeping design and production of these campaigns inside lets marketing managers and advertising professionals work together closely on a continuing basis, helping generate the creative and cost-effective programs that have made direct mail the source of the majority of our new accounts.

**Telesales** complements our customized direct mail campaigns. We operate one of the largest financial services telesales systems in the United States and Europe, which allows us to customize each call to appeal to the personal interest or group affiliation of the individual Customer.



**Event Marketing** extends our personal approach to marketing to large events. Each year, we attend more than 1,000 events, ranging from football games to professional conventions, to offer our products directly to members or fans of our endorsing organizations.

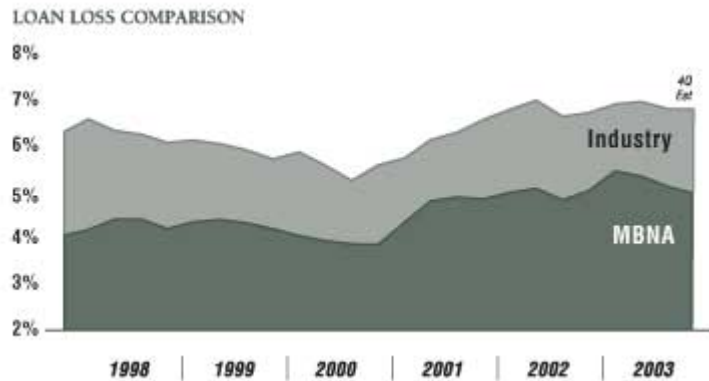
The **Internet** allows us to use the Web sites of our endorsing organizations and the e-mail addresses of their members to market our products. **Advertising** in the publications and newsletters of many of our groups also provides a targeted and effective means of bringing our product offering to more potential Customers.

In addition to these familiar marketing methods, our commitment to innovation has led to the development of our newest acquisition channel—**Point-of-Sale Marketing**. This technique allows a Customer to apply for a credit card in a bank or retail store and receive an instant loan decision for immediate activation. Point-of-sale programs with firms such as Bass Pro Shops, Gander Mountain, and RadioShack have been particularly successful.

## HOW WE LEND

MBNA's unique marketing strategy and diverse acquisition methods get the right people to apply for our products. Effective lending ensures that MBNA chooses the right Customers. The right Customer is someone who borrows from us and pays us back responsibly. Our success at approving the right Customer is the result of a personal approach to lending. Experienced credit analysts, using sophisticated technology, highly predictive scoring models, and good common sense, approve most of the loans we make at MBNA.

Credit analysts look at many factors before making a lending decision. They analyze the applicant's capacity to repay—making sure their income is sufficient to handle their household debt. They also look at the overall stability of the individual, such as homeownership and length of time on the job. And most important, the credit analyst makes sure the applicant has good repayment habits with a history of paying bills on time.



*More than a third of all teachers in the U.S. carry an MBNA credit card.*



A credit analyst may decide yes, no, or maybe when making a lending decision. When a credit analyst says maybe, he or she calls the applicant to develop additional information needed to change the answer to yes or no. This additional information is fundamental in making the right lending decision and also ensures that the Customer receives the proper credit line.

Marketing to people with strong common interests and judgmental lending result in getting Customers who perform well and are very loyal. MBNA Customers have a 53% higher balance per active account and are 25% less likely to default than industry averages.

## HOW WE KEEP CUSTOMERS

Getting the right Customers is just part of producing consistent results. Keeping these Customers is equally important to our success now and in the future. We do this by treating our Customers as we expect to be treated. Every time a Customer communicates with us presents another opportunity to strengthen our relationship. Each person who works at MBNA is responsible for influencing how our Customers feel about the company. Maintaining high levels of Customer satisfaction enables us to continue to retain our most profitable Customers and endorsing organizations every year.

We make substantial investments in the latest and best technology to enhance the quality and efficiency of our Customer satisfaction. Our Customer Satisfaction and Loss Prevention Super Stations, for example, provide MBNA representatives with the tools and information they need to meet Customer needs. We match that investment with unremitting attention to how we do things.

Customer Satisfaction representatives communicate directly with our Customers every day. We receive nearly 100 million Customer inquiries each year, and every contact is an opportunity for MBNA to exceed our Customers' expectations and let them know how important they are to us. MBNA representatives are empowered to make decisions

and exercise individual judgment to satisfy our Customers—one at a time. We continually monitor service standards important to our Customers, such as average speed of answer and initial call resolution, to ensure that we maintain the highest levels of Customer satisfaction.

The single most important factor in our success has always been the people of MBNA. Today, MBNA is a company of 28,000 people driven to satisfy the Customer.





## FUNDING

MBNA continues to expand and diversify its funding sources and investor base to support asset growth globally. Our funding sources include asset-backed securitizations, retail deposits, brokered CDs, and senior and subordinated debt.

MBNA continues to securitize loan receivables as a major source of funding. MBNA has been a leader in this market since pioneering the practice of securitizing credit card receivables in 1986. Asset securitization removes loan receivables from the balance sheet through a sale to a trust that is independent of MBNA. The securities issued by these trusts are primarily AAA-rated securities sold to investors on a global basis. Subordinated asset-backed securities are also sold to investors and typically not retained by MBNA. Proceeds are used by MBNA to fund its lending activities.

The global credit card asset securitization market continues to be a vibrant, cost-effective source of funding. The innovative design of these securitizations, MBNA's reputation, and the consistent performance of the receivables have allowed the company to price these transactions at favorable rates compared to other issuers.

MBNA issues in multiple currencies and markets, drawing investors from North America, Europe, and Asia to participate in transactions. MBNA maintained its status as a top-tier issuer by completing 31 securitizations totaling \$13.6 billion in 2003. Securitizations now total \$84.9 billion. These transactions continue to be well received by investors.

We also have established a \$32 billion deposit base, mainly through the issuance of retail certificate of



deposit and money market accounts. More than 2,000 affinity groups endorse our deposit products for their members, including the American Automobile Association, Military Officers Association of America, and National Education Association. MBNA's retail deposit products are marketed much like our other products: through the mail and over the telephone. MBNA does not maintain a large retail branch network; as a result, we can offer investors very competitive rates on deposit products.

MBNA's unsecured debt programs are also important components of our funding mix and are attractive investments for pension funds, investment advisors, foreign and domestic banks, insurance companies, and retail investors. They allow MBNA to tap investors in domestic and international markets. Current outstandings under these programs are \$11.8 billion.

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**FIVE-YEAR STATISTICAL SUMMARY** (dollars in thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001	2000	1999
<b>Income Statement Data for the Year (a)</b>					
Net interest income (b)	\$ 2,350,373	\$ 2,074,575	\$ 1,657,340	\$ 1,395,015	\$ 1,175,759
Provision for possible credit losses	1,392,701	1,340,157	1,140,615	547,309	636,614
Other operating income (b)	7,825,480	6,752,923	6,673,316	4,920,403	4,193,527
Other operating expense	5,124,147	4,701,925	4,474,831	3,647,702	3,077,708
Net income	2,338,104	1,765,954	1,694,291	1,312,532	1,024,423
<b>Per Common Share Data for the Year (a) (c)</b>					
Earnings	\$ 1.82	\$ 1.37	\$ 1.31	\$ 1.05	\$ .84
Earnings—assuming dilution	1.79	1.34	1.28	1.02	.80
Dividends	.36	.27	.24	.21	.19
Book value	8.53	6.96	5.94	5.02	3.31
<b>Ratios (a)</b>					
Net interest margin (d) (e)	5.37	% 5.54	% 5.51	% 5.50	% 5.30
Return on average total assets	4.16	3.67	4.16	3.94	3.62
Return on average stockholders' equity	22.98	21.29	24.07	25.79	27.18
Stockholders' equity to total assets	18.80	17.22	17.16	17.13	13.61
<b>Loan receivables (e) (f):</b>					
Delinquency (g)	3.84	4.36	4.67	4.03	4.01
Net credit losses (h)	4.84	4.57	4.20	3.38	3.65
Sales and cash advance volume	\$ 184,293,873	\$ 160,046,164	\$ 142,261,636	\$ 125,683,731	\$ 105,806,935
<b>Managed Data (a) (i)</b>					
At year end:					
Loans held for securitization	\$ 13,084,105	\$ 11,029,627	\$ 9,929,948	\$ 8,271,933	\$ 9,692,616
Loan portfolio	20,539,972	17,696,881	14,703,616	11,682,904	7,971,093
Securitized loans	84,869,483	78,531,334	72,862,487	68,835,884	54,591,804
Total managed loans	\$ 118,493,560	\$ 107,257,842	\$ 97,496,051	\$ 88,790,721	\$ 72,255,513
Average for the year:					
Loans held for securitization	\$ 9,198,810	\$ 8,130,207	\$ 6,909,840	\$ 8,129,333	\$ 4,071,394
Loan portfolio	18,985,008	17,184,993	13,429,548	9,588,815	10,351,101
Securitized loans	81,691,156	74,718,731	70,560,600	59,726,838	49,706,760
Total managed loans	\$ 109,874,974	\$ 100,033,931	\$ 90,899,988	\$ 77,444,986	\$ 64,129,255
For the year:					
Delinquency (e) (g)	4.39	% 4.88	% 5.09	% 4.49	% 4.45
Net credit losses (e) (h)	5.22	4.99	4.74	4.39	4.33
Net interest margin (d) (e)	8.39	8.42	8.42	7.08	7.42
Net interest income	\$ 10,204,638	\$ 9,118,677	\$ 8,204,142	\$ 5,837,109	\$ 5,187,801
Provision for possible credit losses	5,768,170	5,175,540	4,592,629	3,348,289	2,885,149
Other operating income	4,346,684	3,544,204	3,578,528	3,279,289	2,430,020

In September 2002, MBNA Corporation implemented the one-time industry wide Federal Financial Institutions Examination Council's ("FFIEC") accounting guidance, and changed the estimated value of accrued interest and fees, resulting in a decrease to income before income taxes of \$263.7 million (\$167.2 million after taxes) for the year ended December 31, 2002. Net income for the year ended December 31, 2002 was \$1.8 billion or \$1.34 per common share—assuming dilution. Excluding this change in September 2002, earnings per common share—assuming dilution for the year ended December 31, 2002 would have been \$1.47, an increase of 15% compared with the year ended December 31, 2001. Earnings per common share—assuming dilution for the year ended December 31, 2003 increased 34%, compared with the year ended December 31, 2002. Excluding this change in September 2002, earnings per common share—assuming dilution for the year ended December 31, 2003 would have increased 22%, compared with the year ended December 31, 2002.

(b) For purposes of comparability, certain prior period amounts have been reclassified. These reclassifications did not affect net income.

Per common share data and weighted average common shares outstanding and common stock equivalents have been adjusted to reflect the three-for-two stock split of MBNA Corporation's Common Stock effected in the form of a dividend, issued on July 15, 2002, to stockholders of record as of the close of business on July 1, 2002. Earnings per common share is computed using net income applicable to common stock and weighted average common shares outstanding, whereas earnings per common share—assuming dilution includes the potential dilutive effect of common stock equivalents in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share."

(d) Net interest margin ratios are presented on a fully taxable equivalent basis.

In December 2000, MBNA Corporation implemented the FFIEC revised policy on the classification of consumer loans. Excluding the one-time FFIEC adjustment, loan delinquency and managed loan delinquency would have been 4.32% and 4.94%, respectively, at December 31, 2000, and loan receivable net credit losses, managed net credit losses, managed net interest margin, and net interest margin would have been 3.03%, 3.94%, 7.14%, and 5.54%, respectively, for the year ended December 31, 2000.

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**FIVE-YEAR STATISTICAL SUMMARY – Continued** (dollars in thousands)

Year Ended December 31,	2003	2002	2001	2000	1999
<b>Balance Sheet Data at Year End (a)</b>					
Investment securities and money market instruments (b)	\$ 9,581,715	\$ 9,423,620	\$ 6,517,052	\$ 5,205,395	\$ 4,546,132
Loans held for securitization	13,084,105	11,029,627	9,929,948	8,271,933	9,692,616
Credit card loans	11,910,507	9,484,115	8,261,575	7,798,772	6,060,564
Other consumer loans	8,629,465	8,212,766	6,442,041	3,884,132	1,910,529
Total loan portfolio	20,539,972	17,696,881	14,703,616	11,682,904	7,971,093
Reserve for possible credit losses	(1,216,316)	(1,111,299)	(833,423)	(527,573)	(516,261)
Net loan portfolio	19,323,656	16,585,582	13,870,193	11,155,331	7,454,832
Total assets	59,113,355	52,856,746	45,447,945	38,678,096	30,859,132
Total deposits	31,836,081	30,616,216	27,094,745	24,343,595	18,714,753
Long-term debt and bank notes	12,145,628	9,538,173	6,867,033	5,735,635	5,708,880
Stockholders' equity	11,113,040	9,101,319	7,798,718	6,627,278	4,199,443
<b>Average Balance Sheet Data for the Year (a)</b>					
Investment securities and money market instruments (b)	\$ 11,693,550	\$ 8,257,838	\$ 6,500,608	\$ 5,051,619	\$ 5,771,007
Loans held for securitization	9,198,810	8,130,207	6,909,840	8,129,333	4,071,394
Credit card loans	10,657,649	9,672,043	7,887,115	6,784,742	8,184,713
Other consumer loans	8,327,359	7,512,950	5,542,433	2,804,073	2,166,388
Total loan portfolio	18,985,008	17,184,993	13,429,548	9,588,815	10,351,101
Reserve for possible credit losses	(1,158,510)	(941,780)	(656,654)	(549,033)	(416,627)
Net loan portfolio	17,826,498	16,243,213	12,772,894	9,039,782	9,934,474
Total assets	56,232,903	48,154,027	40,764,316	33,299,176	28,310,222
Total deposits	31,880,540	28,481,487	25,147,782	20,654,087	16,901,334
Long-term debt and bank notes	10,557,593	8,040,419	6,309,446	5,699,638	5,974,276
Stockholders' equity	10,172,778	8,293,823	7,039,986	5,088,882	3,769,539
Weighted average common shares outstanding (000) (c)	1,278,166	1,277,787	1,277,745	1,230,827	1,201,530
Weighted average common shares outstanding and common stock equivalents (000) (c)	1,295,142	1,302,712	1,314,230	1,269,803	1,255,625

(f) Loan receivables include loans held for securitization and the loan portfolio.

(g) Delinquency represents accruing loans that are 30 days or more past due.

MBNA Corporation's net credit loss ratio is calculated by dividing annualized net credit losses, which exclude uncollectible accrued interest and fees and fraud losses, for the period by average loans, which include estimated collectible billed interest and fees for the corresponding period.

MBNA Corporation allocates resources on a managed basis, and financial data provided to management reflects MBNA Corporation's results on a managed basis. Managed data assumes MBNA Corporation's securitized loan principal receivables have not been sold and presents the earnings on securitized loan principal receivables in the same fashion as MBNA Corporation's owned loans. Management, equity and debt analysts, rating agencies and others evaluate MBNA Corporation's operations on a managed basis because the loans that are securitized are subject to underwriting standards comparable to MBNA Corporation's owned loans, and MBNA Corporation services the securitized and owned loans, and the related accounts, together and in the same manner without regard to ownership of the loans. In a securitization, the loan principal receivables are sold to the trust, but the account relationships are not sold. MBNA Corporation continues to own and service the accounts that generate the securitized loan principal receivables. The credit performance of the entire managed loan portfolio is important to understand the quality of originations and the related credit risks inherent in the owned portfolio and retained interests in its securitization transactions.

Table 34 reconciles income statement data for the period to managed net interest income, managed provision for possible credit losses, and managed other operating income, and the loan receivables net credit loss ratio to the managed net credit loss ratio, the loan receivables delinquency ratio to the managed delinquency ratio, and the net interest margin ratio to the managed net interest margin ratio. Managed other operating income includes the impact of the net gain (loss) recognized on securitization activity in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125" ("Statement No. 140").

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## MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is intended to further the reader' s understanding of the consolidated financial statements, financial condition, and results of operations of MBNA Corporation. It should be read in conjunction with the audited consolidated financial statements, notes, and tables included in this report. For purposes of comparability, certain prior period amounts have been reclassified.

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## MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION AND OVERVIEW

MBNA Corporation (“the Corporation”), a bank holding company located in Wilmington, Delaware, is the parent company of MBNA America Bank, N.A. (“the Bank”), a national bank and the Corporation’ s principal subsidiary. The Bank has two wholly owned foreign bank subsidiaries, MBNA Europe Bank Limited (“MBNA Europe”) located in the United Kingdom (U.K.) and MBNA Canada Bank (“MBNA Canada”) located in Canada. The Corporation’ s primary business is giving its Customers the ability to have what they need today and pay for it out of future income by lending money through credit card and other consumer loans. Through the Bank, the Corporation is the largest independent credit card lender in the world and is the leading issuer of credit cards through endorsed marketing. In addition to its credit card lending, the Corporation also makes other consumer loans, which include installment and revolving unsecured loan products, and offers insurance and deposit products. The Corporation is also the parent of MBNA America (Delaware), N.A. (“MBNA Delaware”), a national bank, which offers business card products, mortgage loans, aircraft loans, and other specialty lending products. Mortgage loans, aircraft loans, and other specialty lending products are included in other consumer loan receivables, and business card products are included in credit card loan receivables in the Corporation’ s audited consolidated statements of financial condition.

The Corporation seeks to manage its business to achieve its net income and other objectives. It does this primarily by attempting to grow loans to generate related interest and other operating income through adding new accounts and stimulating usage of existing accounts while controlling loan losses and expense growth. The Corporation generates income through finance charges assessed on outstanding loan receivables, securitization income, interchange income, credit card and other consumer loan fees, insurance income, interest earned on investment securities and money market instruments and other interest-earning assets. The Corporation’ s primary costs are the costs of funding and growing its loan receivables, investment securities, and other assets, which include interest paid on deposits, short-term borrowings and long-term debt and bank notes, credit losses, business development and operating expenses, royalties to endorsing organizations, and income taxes.

The Corporation obtains funds to make loans to its Customers primarily through the process of asset securitization, raising deposits, and the issuance of short-term and long-term debt. Asset securitization removes loan principal receivables from the audited consolidated statements of financial condition through the sale of loan principal receivables to a trust. The trust sells securities backed by those loan principal receivables to investors. The trusts

are independent of the Corporation, and the Corporation has no control over the trusts. The trusts are not subsidiaries of the Corporation and are excluded from the Corporation’ s audited consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”).

The Corporation allocates resources on a managed basis, and financial data provided to management reflects the Corporation’ s results on a managed basis. Managed data assumes the Corporation’ s securitized loan principal receivables have not been sold and presents the earnings on securitized loan principal receivables in the same fashion as the Corporation’ s owned loans. Management, equity and debt analysts, rating agencies and others evaluate the Corporation’ s operations on a managed basis because the loans that are securitized are subject to underwriting standards comparable to the Corporation’ s owned loans, and the Corporation services the securitized and owned loans, and the related accounts, together and in the same manner without regard to ownership of the loans. In a securitization, the loan principal receivables are sold to the trust, but the account relationships are not sold. The Corporation continues to own and service the accounts that generate the securitized loan principal receivables. The credit performance of the entire managed loan portfolio is important to understand the quality of originations and the related credit risks inherent in the owned portfolio and retained interests in securitization transactions. Asset securitization has a significant effect on the Corporation’ s audited consolidated financial statements. The impact is discussed under “Off-Balance Sheet Arrangements–Impact of Off-Balance Sheet Securitization Transactions on the Corporation’ s Results.” Securitization income is the most significant revenue item and is discussed under “Total Other Operating Income.” Whenever managed data is included in this report, a reconciliation of the managed data to the most directly comparable financial measure presented in accordance with GAAP is provided.

### DURING 2003, THE CORPORATION:

Grew loan receivables by \$4.9 billion to \$33.6 billion, and grew managed loans by \$11.2 billion to \$118.5 billion, through marketing and portfolio acquisitions. The Corporation’ s international loan growth in the U.K., Canada, Ireland, and Spain benefited in part from the strengthening of foreign currencies against the U.S. dollar, which increased foreign loan receivables by \$960.9 million in 2003.

Added 10.7 million new loan, deposit, and insurance accounts, 384 new endorsements from organizations, and renewed more than 1,400 group contracts. The Corporation is now endorsed by more than 5,000 affinity groups and financial institutions.

Maintained a relatively stable net interest margin by balancing the interest rates it charges on its loan accounts against the Corporation's funding costs. The net interest margin was 5.37% and 5.54% for the years ended December 31, 2003 and 2002, respectively. The managed net interest margin was 8.39% and 8.42% for the years ended December 31, 2003 and 2002, respectively.

Controlled loan losses at 4.84% and losses on managed loans at 5.22%. Loan quality was affected by general economic conditions, such as levels of unemployment, bankruptcy filings, and the continued seasoning of the Corporation's loan receivables and managed loans.

Increased interchange income, credit card fee income, and insurance income.

Continued to securitize loan principal receivables as a source of funding, increasing securitization income.

Controlled other operating expenses, which increased at a slower rate than growth in managed loans.

These items, as well as other factors, contributed to the increase in net income for 2003 to \$2.3 billion, or \$1.79 per common share—assuming dilution and are discussed in further detail throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## 2004

In 2004, the Corporation will continue to focus on loan and account growth and managing its net interest margin, while attempting to control expenses and credit losses and manage its business to achieve its net income and other objectives.

Should interest rates increase in 2004, the Corporation's funding costs are likely to increase, impacting the Corporation's managed net interest margin. The Corporation could then determine to increase the interest rates it charges on its loan accounts or change its promotional or other interest rates on new loans in marketing activation programs to attempt to achieve a certain net interest margin. Any increases in the rates it charges on accounts could have an effect on the Corporation's efforts to attract new Customers and grow managed loans, particularly with the continuing competition in the credit card and consumer lending industry. The Corporation's interest rate risk is further discussed under "Liquidity and Rate Sensitivity."

In 2004, the Corporation's results will continue to be affected by the amount of credit losses. Credit losses are influenced by a number of factors, including the credit quality of the Corporation's loans, general economic conditions, the level of consumer

loans. However, the Corporation will continue to strive to be more efficient and focus on controlling the growth of these expenses so that they grow more slowly than the growth in managed loans.

For 2004, management will be focused on the above challenges and opportunities and other factors affecting the business similar to the factors driving 2003 results as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The risks to achieving the Corporation's financial objectives for 2004 are discussed in the "Important Factors Regarding Forward-Looking Statements" section of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003.

The Corporation has filed as exhibits to its Form 10-K the certification of the Chief Executive Officer and the certification of the Chief Financial Officer under section 302 of the Sarbanes-Oxley Act of 2002.

## CRITICAL ACCOUNTING POLICIES

Management makes certain judgments and uses certain estimates and assumptions when applying accounting principles in the preparation of the Corporation's audited consolidated financial statements. The nature of the estimates and assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain factors or the susceptibility of such factors to change. Management has identified the policies related to the accounting for asset securitization, the reserve for possible credit losses, intangible assets, and revenue recognition as critical accounting policies, which require management to make significant judgments, estimates and assumptions.

Management believes the current assumptions and other considerations used to estimate amounts reflected in the Corporation's audited consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in the Corporation's audited consolidated financial statements, the resulting changes could have a material adverse effect on the Corporation's consolidated results of operations, and in certain situations, could have a material adverse effect on the Corporation's financial condition.

The development and selection of the critical accounting policies, and the related disclosures have been reviewed with the Audit Committee of the Corporation's Board of Directors.

## ASSET SECURITIZATION

The Corporation uses securitization of its loan principal receivables as one source to meet its funding needs. The Corporation accounts for its securitization transactions in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers



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bankruptcies and regulatory policies. The pace of the U.S. economic recovery in 2004, and the levels of consumer spending and consumer confidence will be important factors that affect the Corporation's success controlling credit losses and growing loans.

In 2004, the Corporation will continue to utilize strategies to control other operating expenses. These expenses are important for the Corporation to continue to attract new accounts and grow

and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125” (“Statement No. 140”), issued by the Financial Accounting Standards Board (“FASB”). When the Corporation securitizes loan

principal receivables, the Corporation recognizes a gain on sale and retained beneficial interests, including an interest-only strip receivable. The interest-only strip receivable represents the contractual right to receive interest and other revenue less certain ~~costs from the trust over the estimated life of the securitized loan~~ principal receivables. The Corporation's securitization trusts are qualified special-purpose entities as defined by Statement No. 140 that are specifically exempted from the requirements of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46").

The Corporation estimates the fair value of the interest-only strip receivable based on the present value of expected future net revenue flows. Since quoted market prices for the interest-only strip receivable are not available, management uses certain assumptions and estimates in determining the fair value of the interest-only strip receivable. These assumptions and estimates include projections concerning interest income, certain fees, recoveries on charged-off securitized loans, gross credit losses on securitized loans, contractual servicing fees, and the interest rate paid to investors in a securitization transaction ("excess spread"). These projections are used to estimate the excess spread to be earned by the Corporation over the estimated life of the securitized loan principal receivables. The other assumptions and estimates used by the Corporation in estimating the fair value of the interest-only strip receivable include projected loan payment rates, which are used to determine the estimated life of the securitized loan principal receivables, and an appropriate discount rate.

The assumptions and estimates used to estimate the fair value of the interest-only strip receivable at December 31, 2003, reflect management's judgment as to the expected excess spread to be earned and projected loan payment rates to be experienced on the securitized loans. These estimates are likely to change in the future, as the individual components of the excess spread and projected loan payment rates are sensitive to market and economic conditions. For example, the rates paid to investors in the Corporation's securitization transactions are primarily variable rates subject to change based on changes in market interest rates. Changes in market interest rates and competitive pressures can also affect the projected interest income on securitized loans, as the Corporation could reprice the managed loan portfolio. Credit loss projections could change in the future based on changes in the credit quality of the securitized loans, the Corporation's account management and collection practices, and general economic conditions. Projected loan payment rates could fluctuate based on general economic conditions and competition. Actual and expected changes in these assumptions may result in future estimates of the excess spread and projected loan payment rates being materially different from the estimates used in the periods covered by this report.

On a quarterly basis, the Corporation reviews prior assumptions and estimates compared to actual trust performance and other factors based on the prior period that approximates the average life of the securitized loan receivables. The actual trust performance

results and other factors are compared to the estimates and assumptions used in the determination of the fair value of the interest-only strip receivable. Based on this review and the Corporation's current assumptions and estimates for future periods, ~~the Corporation adjusts as appropriate, the assumptions and estimates used in determining the fair value of the interest-only strip receivable.~~ If the assumptions change, or actual results differ from projected results, the interest-only strip receivable and securitization income would be affected. If management had made different assumptions for the periods covered by this report that raised or lowered the excess spread or projected loan payment rates, the Corporation's financial condition and results of operations could have differed materially. For example, a 20% change in the excess spread assumption for all securitized loan principal receivables could have resulted in a change of approximately \$268 million in the value of the total interest-only strip receivable at December 31, 2003, and a related change in securitization income.

Based on quarterly 2003 reviews of the interest-only strip receivable, the actual performance of the securitized receivables did not materially differ from the assumptions and estimates used to value the interest-only strip receivable.

Note 8: Asset Securitization to the audited consolidated financial statements provides further detail regarding the Corporation's assumptions and estimates used in determining the fair value of the interest-only strip receivable and their sensitivities to adverse changes.

## RESERVE FOR POSSIBLE CREDIT LOSSES

The Corporation maintains the reserve for possible credit losses at an amount sufficient to absorb losses inherent in the Corporation's loan principal receivables at the reporting date based on a projection of probable net credit losses. To project probable net credit losses, the Corporation regularly performs a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through the various delinquency stages and ultimately charge off. On a quarterly basis, the Corporation reviews and adjusts, as appropriate, these estimates. The Corporation's projection of probable net credit losses considers the impact of economic conditions on the borrowers' ability to repay, past collection experience, the risk characteristics and composition of the portfolio, and other factors. The Corporation then reserves for the projected probable net credit losses based on its projection of these amounts. The Corporation establishes appropriate levels of the reserve for possible credit losses for its products, including domestic credit card, domestic other consumer and foreign loans, based on their risk characteristics. A provision is charged against earnings to maintain the reserve for possible credit losses at an appropriate level. The Corporation records acquired reserves for current period loan acquisitions.

The Corporation's projections of probable net credit losses are inherently uncertain, and as a result the Corporation cannot predict with certainty the amount of such losses. Changes in

economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws or regulatory policies, and other factors could impact the Corporation's actual and projected net credit losses and the related reserve for possible credit losses. If management had made different assumptions about probable net credit losses, the Corporation's financial condition and results of operations could have differed materially. For example, a 10% change in management's projection of probable net credit losses could have resulted in a change of approximately \$122 million in the reserve for possible credit losses and a related change in the provision for possible credit losses at December 31, 2003.

Based on the 2003 review of the reserve for possible credit losses, the actual net credit losses did not materially differ from the projections of net credit losses used to establish the reserve for possible credit losses.

Note 10: Reserve for Possible Credit Losses to the audited consolidated financial statements provides further detail regarding the Corporation's reserve for possible credit losses.

## INTANGIBLE ASSETS

The Corporation's intangible assets include purchased credit card relationships ("PCCRs"), which are carried at net book value. The Corporation records these intangible assets as part of the acquisition of credit card loans and the corresponding Customer relationships. The Corporation's intangible assets are amortized over the period the assets are expected to contribute to the cash flows of the Corporation, which reflect the expected pattern of benefit. PCCRs are amortized using an accelerated method based upon the projected cash flows the Corporation will receive from the Customer relationships during the estimated useful lives of the PCCRs.

The Corporation's PCCRs are subject to impairment tests in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement No. 144"). The Corporation reviews the carrying value of its PCCRs for impairment on a quarterly basis, or sooner, whenever events or changes in circumstances indicate that their carrying amount may not be fully recoverable, by comparing their carrying value to the sum of the undiscounted expected future cash flows from the loans and corresponding credit card relationships. In accordance with Statement No. 144, an impairment exists if the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset. An impairment would result in a write-down of the PCCRs to estimated fair value based on the discounted future cash flows expected from the PCCRs. The Corporation performs the impairment test on a specific portfolio basis, since it represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities.

The Corporation makes certain estimates and assumptions that affect the determination of the expected future cash flows from the loans

active account attrition, funding costs, credit loss experience, servicing costs, growth in average account balances, interest and fees assessed on loans, and other factors. Significant changes in these estimates and assumptions could result in an impairment of the PCCRs. The estimated undiscounted cash flows of acquired Customer credit card relationships exceeds the \$3.1 billion net book value of the Corporation's PCCRs at December 31, 2003 by approximately \$3.8 billion. If the active account attrition rates for all acquired portfolios in the twelve month period following December 31, 2003, were to be 10 percentage points higher than the rates assumed by management when it valued the PCCRs (for example, the assumed attrition rates were 10% but the actual rates were 20%) and all other estimates and assumptions were held constant, the estimated undiscounted cash flows of acquired Customer accounts in the aggregate would still exceed the net book value of acquired Customer accounts by approximately \$2.6 billion, and no impairment would result on any individual PCCR.

There were no impairment write-downs of intangible assets during the year ended December 31, 2003.

## REVENUE RECOGNITION

Interest income is recognized based upon the amount of loans outstanding and their contractual annual percentage rates. Interest income is included in loan receivables when billed to the Customer. The Corporation accrues unbilled interest income on a monthly basis from the Customer's statement billing cycle date to the end of the month. The Corporation uses certain estimates and assumptions (for example, estimated yield) in the determination of the accrued unbilled portion of interest income that is included in accrued income receivable in the Corporation's audited consolidated statements of financial condition. The Corporation also uses certain assumptions and estimates in the valuation of the accrued interest on securitized loans which is included in accounts receivable from securitization in the Corporation's audited consolidated statements of financial condition. If management had made different assumptions about the determination of the accrued unbilled portion of interest income and the valuation of accrued interest on securitized loans, the Corporation's financial condition and results of operations could have differed materially. For example, a 10% change in management's projection of the estimated yield on its loan receivables and the valuation of the accrued interest receivable on securitized loans could have resulted in a change totaling approximately \$70 million in interest income and other operating income at December 31, 2003.

For 2003, the Corporation's estimated yield on its loan receivables and the valuation of the accrued interest receivable on securitized loans did not materially differ from the actual yield.

The Corporation also recognizes fees (except annual fees) on loan receivables in earnings as the fees are assessed according to agreements with the Corporation's Customers. Credit card and other

and corresponding credit card relationships. These estimates and assumptions include levels of account usage and activation,

consumer loan fees include annual, late, overlimit, returned check, cash advance, express payment, and other miscellaneous

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fees. These fees are included in the Corporation's loan receivables when billed. Annual fees on loan receivables and incremental direct loan origination costs are deferred and amortized on a straight-line basis over the one-year period to which they pertain.

The Corporation adjusts the amount of interest and fee income on loan receivables recognized in the current period for its estimate of interest and fee income that it does not expect to collect in subsequent periods through adjustments to the respective income statement captions, loan receivables, and accrued income receivable. The estimate of uncollectible interest and fees is based on a migration analysis of delinquent and current loan receivables that will progress through the various delinquency stages and will ultimately charge off. The Corporation also adjusts the estimated value of accrued interest and fees on securitized loans for the amount of uncollectible interest and fees that are not expected to be collected through an adjustment to accounts receivable from securitization and securitization income. This estimate is also based on a migration analysis of delinquent and current securitized loans that will progress through the various delinquency stages and ultimately charge off. On a quarterly basis, the Corporation reviews and adjusts, as appropriate, these estimates.

If management had made different assumptions about uncollectible interest and fees on its loan receivables and its securitized loans, the Corporation's financial condition and results of operations could have differed. For example, a 10% change in management's estimate of uncollectible interest and fees could have resulted in a change totaling approximately \$41 million in interest income and other operating income at December 31, 2003.

### CHANGE IN ACCOUNTING ESTIMATE FOR INTEREST AND FEES RECOGNIZED IN 2002

In September 2002, the Corporation implemented the Federal Financial Institutions Examination Council ("FFIEC") guidance for uncollectible accrued interest and fees for its managed loan portfolio. As a result, the Corporation changed its estimate of the value of accrued interest and fees in September 2002. The change in the estimated value of accrued interest and fees resulted in a decrease to income before income taxes of \$263.7 million (\$167.2 million after taxes) or \$.13 per common share—assuming dilution for the year ended December 31, 2002, through a reduction of \$66.3 million of interest income and \$197.4 million of other operating income. This change in the estimated value of accrued interest and fees in 2002 also reduced ending total loan receivables by \$86.5 million, accrued income receivable by \$5.2 million, and accounts receivable from securitization by \$172.0 million. The Corporation's earnings per common share, excluding the change in the estimated value of accrued interest and fees in 2002, would have been \$1.50 for the year ended December 31, 2002, and earnings per common share—assuming dilution would have been \$1.47 for the year ended December 31, 2002. The change in the estimated value of accrued interest and fees has not had a material effect on earnings in subsequent periods.

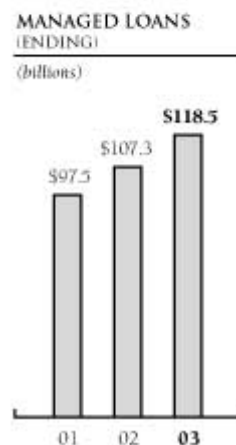
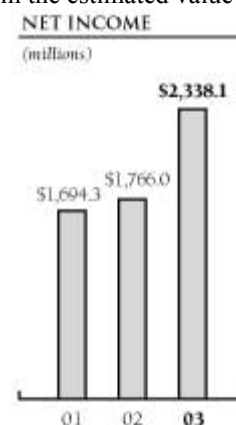
Throughout this report, various items in the consolidated financial statements are discussed excluding the change in the estimated value of accrued interest and fees in 2002.

Management believes this presentation is useful to investors because the change in accounting estimate had a material impact on the results of operations in 2002, but not in 2003. As a result, the business factors and trends affecting the Corporation's results from 2002 to 2003 and from 2001 to 2002 in certain cases are better discussed and analyzed without the impact of the change in estimate.

### EARNINGS SUMMARY

Net income for 2003 increased \$572.2 million or 32.4% to \$2.3 billion or \$1.79 per common share from \$1.8 billion or \$1.34 per common share in 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, net income would have increased \$405.0 million or 20.9% for 2003. Net income for 2002 increased \$71.7 million or 4.2% from \$1.7 billion or \$1.28 per common share in 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, net income would have increased \$238.8 million or 14.1% to \$1.9 billion or \$1.47 per common share for 2002. All earnings per common share amounts are presented assuming dilution.

The overall growth in earnings for 2003 was primarily attributable to the growth in the Corporation's loan receivables, higher levels of securitized loans, an increase in other operating income, interest income, and a decrease in interest expense, partially offset by higher credit losses and an increase in other operating expense. The overall growth in earnings for 2002 was primarily attributable to the growth in the Corporation's loan receivables and higher levels of securitized loans, partially offset by the change in the estimated value of accrued interest and fees in 2002 and higher credit losses.



**TABLE 1: SUMMARIZED CONSOLIDATED STATEMENTS OF INCOME** (dollars in thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001
Total interest income	\$ 3,858,884	\$ 3,678,070	\$ 3,471,405
Total interest expense	1,508,511	1,603,495	1,814,065
Net interest income	2,350,373	2,074,575	1,657,340
Provision for possible credit losses	1,392,701	1,340,157	1,140,615
Net interest income after provision for possible credit losses	957,672	734,418	516,725
Total other operating income	7,825,480	6,752,923	6,673,316
Total other operating expense	5,124,147	4,701,925	4,474,831
Income before income taxes	3,659,005	2,785,416	2,715,210
Applicable income taxes	1,320,901	1,019,462	1,020,919
Net income	\$ 2,338,104	\$ 1,765,954	\$ 1,694,291
Earnings per common share	\$ 1.82	\$ 1.37	\$ 1.31
Earnings per common share—assuming dilution	1.79	1.34	1.28
Dividends per common share	.36	.27	.24

Table 1 summarizes the Corporation's consolidated statements of income, which has been derived from the audited consolidated financial statements, for the years ended December 31, 2003, 2002, and 2001.

Ending loan receivables increased \$4.9 billion or 17.0% to \$33.6 billion for 2003 and increased \$4.1 billion or 16.6% to \$28.7 billion for 2002 from \$24.6 billion for 2001. Total managed loans increased \$11.2 billion or 10.5% to \$118.5 billion for 2003 and increased \$9.8 billion or 10.0% to \$107.3 billion for 2002, as compared to \$97.5 billion for 2001. Average loan receivables increased \$2.9 billion or 11.3% to \$28.2 billion for 2003 and increased \$5.0 billion or 24.5% to \$25.3 billion for 2002 from \$20.3 billion for 2001. Total average managed loans increased \$9.8 billion or 9.8% to \$109.9 billion for 2003 and increased \$9.1 billion or 10.0% to \$100.0 billion for 2002 from \$90.9 billion for 2001.

Table 2 reconciles the Corporation's loan receivables to its managed loans and average loan receivables to its average managed loans.

Other operating income increased \$1.1 billion or 15.9% to \$7.8 billion for 2003 and increased \$79.6 million or 1.2% to \$6.8 billion for 2002 from \$6.7 billion for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, other operating income would have increased \$875.2 million or

12.6% for 2003 and \$277.0 million or 4.2% for 2002. Interest income increased \$180.8 million or 4.9% to \$3.9 billion for 2003 and increased \$206.7 million or 6.0% to \$3.7 billion for 2002 from \$3.5 billion for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, interest income would have increased \$114.5 million or 3.1% for 2003 and \$272.9 million or 7.9% for 2002. Interest expense decreased \$95.0 million or 5.9% to \$1.5 billion for 2003 and decreased \$210.6 million or 11.6% to \$1.6 billion for 2002 from \$1.8 billion for 2001. Other operating expense increased \$422.2 million or 9.0% to \$5.1 billion for 2003, and increased \$227.1 million or 5.1% to \$4.7 billion for 2002 from \$4.5 billion for 2001.

The net credit loss ratio on loan receivables for 2003 was 4.84%, as compared to 4.57% in 2002, and 4.20% in 2001. The net credit loss ratio on managed loans for 2003 was 5.22%, as compared to 4.99% in 2002 and 4.74% in 2001. Delinquency on loan receivables at December 31, 2003 was 3.84%, as compared to 4.36% at December 31, 2002 and 4.67% at December 31, 2001. Delinquency on managed loans was 4.39% at December 31, 2003, as compared to 4.88% at December 31, 2002, and 5.09% at December 31, 2001.

Refer to Table 13 for a reconciliation of the loan receivables delinquency ratio to the managed delinquency ratio. Refer to Table 18 for a reconciliation of the loan receivables net credit loss ratio to the managed net credit loss ratio.

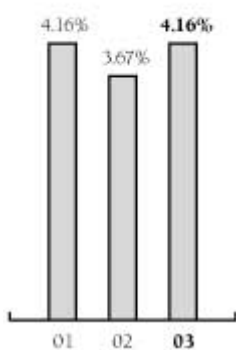
**TABLE 2: RECONCILIATION OF LOAN RECEIVABLES TO MANAGED LOANS** (dollars in thousands)

Year Ended December 31,	2003	2002	2001
At Year End:			
Loans held for securitization	\$ 13,084,105	\$ 11,029,627	\$ 9,929,948
Loan portfolio	20,539,972	17,696,881	14,703,616
Loan receivables	33,624,077	28,726,508	24,633,564
Securitized loans	84,869,483	78,531,334	72,862,487

Total managed loans	\$	<u>118,493,560</u>	\$	<u>107,257,842</u>	\$	<u>97,496,051</u>
Average for the Year:						
Loans held for securitization	\$	<u>9,198,810</u>	\$	<u>8,130,207</u>	\$	<u>6,909,840</u>
Loan portfolio		<u>18,985,008</u>		<u>17,184,993</u>		<u>13,429,548</u>
Loan receivables		<u>28,183,818</u>		<u>25,315,200</u>		<u>20,339,388</u>
Securitized loans		<u>81,691,156</u>		<u>74,718,731</u>		<u>70,560,600</u>
Total managed loans	\$	<u>109,874,974</u>	\$	<u>100,033,931</u>	\$	<u>90,899,988</u>

**RETURN ON AVERAGE TOTAL ASSETS**

(percentage)



The Corporation's return on average total assets for 2003 increased to 4.16% from 3.67% for 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, the Corporation's return on average total assets for 2003 would have increased 15 basis points from 2002 as a result of the Corporation's net income growing faster than its average total assets. The Corporation's return on average total assets for 2002 decreased to 3.67% from 4.16% for 2001.

Excluding the change in the estimated value of accrued interest and fees in 2002, the Corporation's return on average total assets for

2002 would have decreased 15 basis points from 2001 as a result of the Corporation's net income growing slower than its average total assets.

The Corporation's net income grew at a faster rate than its average total assets during 2003, excluding the change in the estimated value of accrued interest and fees in 2002, primarily as a result of an increase of 11.7% in securitization income for 2003 from 2002. Net income grew at a slower rate than average total assets during 2002, excluding the change in the estimated value of accrued interest and fees in 2002, primarily as a result of an increase of only 2.0% in securitization income for 2002 from 2001. See "Total Other Operating Income" for further discussion of the changes in securitization income for 2003 and 2002.

The Corporation's return on average stockholders' equity was 22.98% for 2003, as compared to 21.29% for 2002 and 24.07% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the Corporation's return on average stockholders' equity would have decreased 21 basis points and 88 basis points for 2003 and 2002, respectively, as a result of the

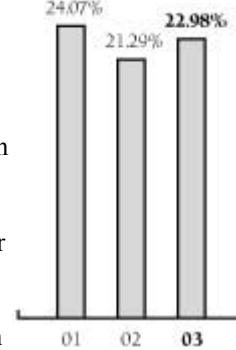
**RETURN ON AVERAGE TOTAL ASSETS AND STOCKHOLDERS' EQUITY TO THE RETURN ON AVERAGE TOTAL ASSETS AND STOCKHOLDERS' EQUITY EXCLUDING THE CHANGE IN THE ESTIMATED VALUE OF ACCRUED INTEREST AND FEES IN 2002** (dollars in thousands)

Year Ended December 31, 2002

	Average Balance	Ratio	Net Income
<b>Return on Average Total Assets</b>			
As reported	\$ 48,154,027	3.67 %	\$ 1,765,954
Impact of the change in the estimated value of accrued interest and fees in 2002	67,182		167,167
Excluding the change in the estimated value of accrued interest and fees in 2002	\$ 48,221,209	4.01	\$ 1,933,121
<b>Return on Average Stockholders' Equity</b>			
As reported	\$ 8,293,823	21.29	\$ 1,765,954
Impact of the change in the estimated value of accrued interest and fees in 2002	42,593		167,167
Excluding the change in the estimated value of accrued interest and fees in 2002	\$ 8,336,416	23.19	\$ 1,933,121

**RETURN ON AVERAGE STOCKHOLDERS' EQUITY**

(percentage)



Corporation's net income growing at a slower rate than its average stockholders' equity. The Corporation's net income typically grows at a slower rate than its average stockholders' equity as the Corporation reinvests a significant portion of its net income back into the business. Also, the strengthening of foreign currencies against the U.S. dollar increased stockholders' equity, partially offset by an increase in the Corporation's dividend rate per common share and other factors.

Table 3 reconciles the Corporation's return on average total assets and return on average stockholders' equity for 2002, to the Corporation's return on average total assets and return on average stockholders' equity for 2002 excluding the change in the estimated value of accrued interest and fees in 2002.

**NET INTEREST INCOME**

Net interest income represents interest income on total interest-earning assets, on a fully taxable equivalent basis where appropriate, less interest expense on total interest-bearing liabilities. Fully taxable equivalent basis represents the income on total interest-earning assets that is either tax-exempt or taxed at a reduced rate, adjusted to give effect to the prevailing incremental federal income tax rate, and adjusted for nondeductible carrying costs and state income taxes, where applicable. Yield calculations, where appropriate, include these adjustments.

Tables 4 and 5 provide further detail regarding the Corporation's average balances, yields and rates, interest income and expense, and the impact that rate and volume changes had on the Corporation's net interest income for the years ended December 31, 2003, 2002, and 2001.

**TABLE 3: RECONCILIATION OF THE AS REPORTED**

**RETURN ON AVERAGE TOTAL ASSETS AND STOCKHOLDERS' EQUITY TO THE RETURN ON AVERAGE TOTAL ASSETS AND STOCKHOLDERS' EQUITY EXCLUDING THE CHANGE IN THE ESTIMATED VALUE OF ACCRUED INTEREST AND FEES IN 2002** (dollars in thousands)





**TABLE 4: STATEMENTS OF AVERAGE BALANCES, YIELDS AND RATES, INCOME OR EXPENSE***(dollars in thousands, yields and rates on a fully taxable equivalent basis)*

Year Ended December 31,	2003			2002			2001		
	Average Balance	Yield/Rate	Income or Expense	Average Balance	Yield/Rate	Income or Expense	Average Balance	Yield/Rate	Income or Expense
<b>Assets</b>									
Interest-earning assets:									
Money market instruments:									
Interest-earning time deposits in other banks:									
Domestic	\$ 8,181	1.91 %	\$ 156	\$ 1,244	.96 %	\$ 12	\$ 1,199	3.59 %	\$ 43
Foreign	4,629,799	1.71	79,103	2,149,065	2.47	53,121	1,690,774	4.22	71,29
Total interest-earning time deposits in other banks	4,637,980	1.71	79,259	2,150,309	2.47	53,133	1,691,973	4.22	71,34
Federal funds sold	2,957,819	1.12	33,137	2,127,914	1.67	35,460	1,526,879	3.71	56,65
Total money market instruments	7,595,799	1.48	112,396	4,278,223	2.07	88,593	3,218,852	3.98	127,9
Investment securities (a):									
Domestic:									
Taxable (b)	3,722,062	2.67	99,223	3,688,047	3.42	126,062	3,001,592	5.04	151,1
Tax-exempt (c)	109,403	1.99	2,176	110,054	2.69	2,965	102,710	4.68	4,807
Total domestic investment securities	3,831,465	2.65	101,399	3,798,101	3.40	129,027	3,104,302	5.02	155,9
Foreign	266,286	4.19	11,147	181,514	4.60	8,349	177,454	5.55	9,840
Total investment securities	4,097,751	2.75	112,546	3,979,615	3.45	137,376	3,281,756	5.05	165,8
Other interest-earning assets (a) (b) (d)									
	3,904,013	7.82	305,468	3,869,893	9.28	359,159	3,256,773	11.89	387,2
Loan receivables:									
Loans held for securitization:									
Domestic:									
Credit card	7,143,690	12.33	881,161	6,311,804	12.89	813,536	5,178,099	14.61	756,4
Other consumer	52,883	5.35	2,827	438,187	15.30	67,062	605,683	15.86	96,08
Total domestic loans held for securitization	7,196,573	12.28	883,988	6,749,991	13.05	880,598	5,783,782	14.74	852,5
Foreign	2,002,237	11.44	228,989	1,380,216	12.75	175,960	1,126,058	12.99	146,3
Total loans held for securitization	9,198,810	12.10	1,112,977	8,130,207	13.00	1,056,558	6,909,840	14.46	998,8
Loan portfolio (d):									

Domestic:										
Credit card	7,346,064	10.71	786,682	7,269,526	10.61	771,292	6,368,297	12.80	814,8	
Other consumer	6,229,575	13.78	858,553	5,895,108	13.73	809,659	4,388,008	14.89	653,2	
Total domestic loan portfolio	13,575,639	12.12	1,645,235	13,164,634	12.01	1,580,951	10,756,305	13.65	1,468	
Foreign	5,409,369	10.56	571,021	4,020,359	11.35	456,503	2,673,243	12.16	325,0	
Total loan portfolio	18,985,008	11.67	2,216,256	17,184,993	11.86	2,037,454	13,429,548	13.35	1,793	
Total loan receivables	28,183,818	11.81	3,329,233	25,315,200	12.22	3,094,012	20,339,388	13.73	2,792	
Total interest-earning assets	43,781,381	8.82	3,859,643	37,442,931	9.83	3,679,140	30,096,769	11.54	3,473	
Cash and due from banks	781,507			766,003			744,798			
Premises and equipment, net (b)	2,576,437			2,434,161			2,153,716			
Other assets (b) (d)	10,252,088			8,452,712			8,425,687			
Reserve for possible credit losses	(1,158,510)			(941,780 )			(656,654 )			
Total assets	\$ 56,232,903			\$ 48,154,027			\$ 40,764,316			

### Liabilities and Stockholders' Equity

Interest-bearing liabilities:										
Interest-bearing deposits:										
Domestic:										
Time deposits	\$ 21,472,666	4.39	942,296	\$ 19,485,060	5.28	1,027,905	\$ 17,999,374	6.43	1,157	
Money market deposit accounts	7,844,120	1.80	141,117	7,040,563	2.70	190,072	5,534,407	4.51	249,4	
Interest-bearing transaction accounts	50,369	1.07	538	47,157	1.71	808	43,675	3.46	1,513	
Savings accounts	82,088	1.18	967	74,839	1.74	1,302	16,967	2.99	508	
Total domestic interest-bearing deposits	29,449,243	3.68	1,084,918	26,647,619	4.58	1,220,087	23,594,423	5.97	1,409	
Foreign:										
Time deposits	712,239	3.21	22,888	924,325	3.83	35,440	701,937	5.02	35,26	
Total interest-bearing deposits	30,161,482	3.67	1,107,806	27,571,944	4.55	1,255,527	24,296,360	5.95	1,444	
Borrowed funds:										
Short-term borrowings:										
Domestic	988,533	3.46	34,185	1,037,403	3.57	37,051	383,638	4.39	16,88	
Foreign	153,421	3.22	4,947	215,718	2.75	5,927	179,993	4.39	7,908	
Total short-term borrowings	1,141,954	3.43	39,132	1,253,121	3.43	42,978	563,631	4.39	24,79	
Long-term debt and bank notes (e):										
Domestic	7,291,420	2.50	182,240	5,696,163	3.05	173,463	4,620,270	5.23	241,8	
Foreign	3,266,173	5.49	179,333	2,344,256	5.61	131,527	1,689,176	6.09	102,7	

Total long-term debt and bank notes	<b>10,557,593</b>	<b>3.42</b>	<b>361,573</b>	8,040,419	3.79	304,990	6,309,446	5.46	344,5
Total borrowed funds	<b>11,699,547</b>	<b>3.42</b>	<b>400,705</b>	9,293,540	3.74	347,968	6,873,077	5.37	369,3
Total interest-bearing liabilities	<b>41,861,029</b>	<b>3.60</b>	<b>1,508,511</b>	36,865,484	4.35	1,603,495	31,169,437	5.82	1,814
Noninterest-bearing deposits	<b>1,719,058</b>			909,543			851,422		
Other liabilities	<b>2,480,038</b>			2,085,177			1,703,471		
Total liabilities	<b>46,060,125</b>			39,860,204			33,724,330		
Stockholders' equity	<b>10,172,778</b>			8,293,823			7,039,986		
Total liabilities and stockholders' equity	<b>\$ 56,232,903</b>			\$ 48,154,027			\$ 40,764,316		
Net interest income (d)			<b>\$ 2,351,132</b>			<b>\$ 2,075,645</b>			<b>\$ 1,659</b>
Net interest margin (d)		<b>5.37</b>			5.54			5.51	
Interest rate spread (d)		<b>5.22</b>			5.48			5.72	

- (a) Average balances for investment securities available-for-sale and other interest-earning assets are based on market values or estimated market values; if these assets were carried at amortized cost, there would not be a material impact on the net interest margin.
- (b) For purposes of comparability, certain prior period amounts have been reclassified.
- (c) The fully taxable equivalent adjustment for the years ended December 31, 2003, 2002, and 2001 was \$759, \$1,070, and \$1,683, respectively.
- (d) December 31, 2002 includes the impact of the change in the estimated value of accrued interest and fees.
- (e) Includes the impact of interest rate swap agreements and foreign exchange swap agreements used to change a portion of fixed-rate funding sources to floating-rate funding sources.

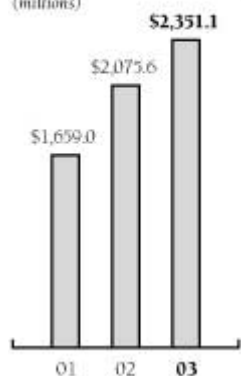
**TABLE 5: RATE-VOLUME VARIANCE ANALYSIS (a)** (dollars in thousands, on a fully taxable equivalent basis)

Year Ended December 31,	2003 Compared to 2002			2002 Compared to 2001		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest-Earning Assets</b>						
Money market instruments:						
Interest-earning time deposits in other banks:						
Domestic	\$ 123	\$ 21	\$ 144	\$ 2	\$ (33 )	\$ (31 )
Foreign	46,381	(20,399 )	25,982	16,160	(34,337 )	(18,177 )
Total interest-earning time deposits in other banks	46,504	(20,378 )	26,126	16,162	(34,370 )	(18,208 )
Federal funds sold	11,367	(13,690 )	(2,323 )	17,180	(38,371 )	(21,191 )
Total money market instruments	57,871	(34,068 )	23,803	33,342	(72,741 )	(39,399 )
Investment securities:						
Domestic:						
Taxable (b)	1,152	(27,991 )	(26,839 )	29,954	(55,065 )	(25,111 )
Tax-exempt	(17 )	(772 )	(789 )	323	(2,165 )	(1,842 )
Total domestic investment securities	1,135	(28,763 )	(27,628 )	30,277	(57,230 )	(26,953 )
Foreign	3,605	(807 )	2,798	221	(1,712 )	(1,491 )
Total investment securities	4,740	(29,570 )	(24,830 )	30,498	(58,942 )	(28,444 )
Other interest-earning assets (b) (c)	3,140	(56,831 )	(53,691 )	65,516	(93,607 )	(28,091 )
Loan receivables:						
Loans held for securitization:						
Domestic:						
Credit card	103,746	(36,121 )	67,625	152,942	(95,869 )	57,073
Other consumer	(36,916)	(27,319 )	(64,235 )	(25,740)	(3,286 )	(29,026 )
Total domestic loans held for securitization	66,830	(63,440 )	3,390	127,202	(99,155 )	28,047
Foreign	72,656	(19,627 )	53,029	32,450	(2,820 )	29,630
Total loans held for securitization	139,486	(83,067 )	56,419	159,652	(101,975)	57,677
Loan portfolio (c):						
Domestic:						
Credit card	8,161	7,229	15,390	106,392	(149,953)	(43,561 )
Other consumer	46,087	2,807	48,894	210,189	(53,797 )	156,392
Total domestic loan portfolio	54,248	10,036	64,284	316,581	(203,750)	112,831
Foreign	148,502	(33,984 )	114,518	154,218	(22,740 )	131,478
Total loan portfolio	202,750	(23,948 )	178,802	470,799	(226,490)	244,309
Total loan receivables	342,236	(107,015)	235,221	630,451	(328,465)	301,986
Total interest income (c)	407,987	(227,484)	180,503	759,807	(553,755)	206,052
<b>Interest-Bearing Liabilities</b>						
Interest-bearing deposits:						
Domestic:						
Time deposits	98,196	(183,805)	(85,609 )	90,173	(220,263)	(130,090)
Money market deposit accounts	19,849	(68,804 )	(48,955 )	56,875	(116,228)	(59,353 )
Interest-bearing transaction accounts	52	(322 )	(270 )	112	(817 )	(705 )
Savings accounts	117	(452 )	(335 )	1,086	(292 )	794
Total domestic interest-bearing deposits	118,214	(253,383)	(135,169)	148,246	(337,600)	(189,354)
Foreign:						
Time deposits	(7,360 )	(5,192 )	(12,552 )	9,659	(9,484 )	175
Total interest-bearing deposits	110,854	(258,575)	(147,721)	157,905	(347,084)	(189,179)
Borrowed funds:						

Short-term borrowings:						
Domestic	(1,712 )	(1,154 )	(2,866 )	23,882	(3,689 )	20,193
Foreign	(1,897 )	917	(980 )	1,366	(3,347 )	(1,981 )
Total short-term borrowings	(3,609 )	(237 )	(3,846 )	25,248	(7,036 )	18,212
Long-term debt and bank notes:						
Domestic	43,270	(34,493 )	8,777	47,886	(116,228)	(68,342 )
Foreign	50,676	(2,870 )	47,806	37,274	(8,535 )	28,739
Total long-term debt and bank notes	93,946	(37,363 )	56,583	85,160	(124,763)	(39,603 )
Total borrowed funds	90,337	(37,600 )	52,737	110,408	(131,799)	(21,391 )
Total interest expense	201,191	(296,175)	(94,984 )	268,313	(478,883)	(210,570)
Net interest income (c)	\$ 206,796	\$ 68,691	\$ 275,487	\$ 491,494	\$ (74,872 )	\$ 416,622

- (a) The rate-volume variance for each category has been allocated on a consistent basis between rate and volume variances based on the percentage of the rate or volume variance to the sum of the two absolute variances.
- (b) For purposes of comparability, certain prior period amounts have been reclassified.
- (c) Rate-volume variance amounts include the impact of the change in the estimated value of accrued interest and fees in 2002.

**NET INTEREST INCOME**  
(FULLY TAXABLE  
EQUIVALENT BASIS)  
(millions)



Net interest income, on a fully taxable equivalent basis, increased \$275.5 million or 13.3% to \$2.4 billion for 2003 from 2002.

Excluding the change in the estimated value of accrued interest and fees in 2002, net interest income, on a fully taxable equivalent basis, would have increased \$209.2 million or 9.8% in 2003.

Average interest-earning assets increased \$6.3 billion or 16.9% to \$43.8 billion for 2003 from 2002. The increase in average interest-earning assets for 2003 was primarily the result of an increase in average loan receivables of

\$2.9 billion and an increase in average money market instruments of \$3.3 billion. The yield on average interest-earning assets decreased 101 basis points to 8.82%, as compared to 9.83% for 2002. The decrease in the yield on average interest-earning assets was primarily the result of the decrease in the yield earned on average loan receivables, average total investment securities and money market instruments, and average other interest-earning assets, combined with an increase in lower yielding average total investment securities and money market instruments, and other interest-earning assets as a percentage of total average interest-earning assets. The decrease in the yield on average interest-earning assets for 2003, as compared to 2002, would have been larger excluding the change in the estimated value of accrued interest and fees in 2002, which decreased the yield earned on average loan receivables by 25 basis points for 2002 (see “Loan Receivables” for further discussion).

Table 6 highlights average interest-earning assets and average interest-bearing liabilities.

Average interest-bearing liabilities increased \$5.0 billion or 13.6% to \$41.9 billion for 2003 from 2002. The increase in average interest-bearing liabilities for 2003 was primarily the result of an increase of \$2.6 billion in average interest-bearing deposits and an increase of \$2.4 billion in average borrowed funds. The 75 basis point decrease in the rate paid on average interest-bearing liabilities to 3.60% for 2003, from 4.35% for 2002, reflects the continued impact of actions by the Federal Open Market

### ASSETS AND AVERAGE INTEREST-BEARING LIABILITIES

(dollars in thousands, yields and rates on a fully taxable equivalent basis)

Year Ended December 31,	2003			2002			2001		
	Average Balance	Yield/Rate	Income or Expense	Average Balance	Yield/Rate	Income or Expense	Average Balance	Yield/Rate	Income or Expense
Total interest-earning assets	\$ 43,781,381	8.82%	\$ 3,859,643	\$ 37,442,931	9.83%	\$ 3,679,140	\$ 30,096,769	11.54%	\$ 3,416,600
Total interest-bearing liabilities	41,861,029	3.60	1,508,511	36,865,484	4.35	1,603,495	31,169,437	5.82	1,508,511

Committee (“FOMC”) of the Federal Reserve throughout 2001, in the fourth quarter of 2002, and the second quarter of 2003 that impacted overall market interest rates.

The impact on the Corporation’s net interest income from the changes in interest rates in 2003 and 2002 reflects the difference in the timeframe the Corporation’s interest rate sensitive assets and interest rate sensitive liabilities repriced. The Corporation’s loan receivables comprised approximately 64.4% and 67.6% of the average interest-earning assets for 2003 and 2002, respectively. Loan receivables are not repriced directly as market conditions change. Instead, these assets are repriced over time as the underlying Customer account behavior changes, market rate conditions change, competitive pressures change, and other events occur. A portion of the Corporation’s interest rate sensitive liabilities, however, can reprice more rapidly due to changes in the market interest rate environment, since they have either variable interest rates or are swapped to variable interest rates or have short-term maturities. Accordingly, the decline in the overall market interest rates in the fourth quarter of 2002 and the second quarter of 2003, that caused a portion of the Corporation’s interest rate sensitive liabilities to reprice at a faster rate than a portion of the Corporation’s interest rate sensitive assets, led to a \$68.7 million increase in 2003 net interest income. The impact of the increase in the interest rates in 2003 would have been smaller excluding the change in the estimated value of accrued interest and fees in 2002. Actions by the FOMC throughout 2001, and the competitive environment reduced the yields on the Corporation’s interest rate sensitive assets in 2002 further than the decline in the rates on the Corporation’s interest rate sensitive liabilities in 2002 which had already begun to reprice in 2001. These changes, combined with the change in the estimated value of accrued interest and fees in 2002, led to a \$74.9 million decrease in 2002 net interest income. The impact of the decrease in the interest rates in 2002 would have been smaller excluding the change in the estimated value of accrued interest and fees in 2002.

Net interest income, on a fully taxable equivalent basis, increased \$416.6 million or 25.1% to \$2.1 billion for 2002 from 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, net interest income, on a fully taxable equivalent basis would have increased \$482.9 million or 29.1% from 2001.

**TABLE 6: SUMMARIZED AVERAGE INTEREST-EARNING**

Net interest income	\$	<u>2,351,132</u>	\$	<u>2,075,645</u>	\$
Net interest margin		5.37		5.54	5.51

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Average interest-earning assets increased \$7.3 billion or 24.4% to \$37.4 billion for 2002 from 2001. The increase in average interest-earning assets for 2002 was primarily a result of an increase in average loan receivables of \$5.0 billion and an increase in average investment securities and money market instruments of \$1.8 billion. The yield on average interest-earning assets decreased 171 basis points to 9.83%, as compared to 11.54% for 2001. The decrease in the yield on average interest-earning assets was primarily the result of the decrease in the yield earned on average loan receivables, average total investment securities and money market instruments, and average other interest-earning assets. The decrease in the yield would have been smaller excluding the change in the estimated value of accrued interest and fees in 2002, which decreased the yield earned on average loan receivables by 25 basis points for 2002 (see “Loan Receivables” for further discussion).

Average interest-bearing liabilities increased \$5.7 billion or 18.3% to \$36.9 billion for 2002 from 2001. The increase in average interest-bearing liabilities for 2002, was primarily the result of an increase of \$3.3 billion in average interest-bearing deposits and an increase of \$2.4 billion in average borrowed funds. The 147 basis point decrease in the rate paid on average interest-bearing liabilities to 4.35% for 2002, from 5.82% for 2001, reflects actions by the FOMC throughout 2001 that impacted overall market interest rates and lowered the Corporation’s cost of funds.

The Corporation’s net interest margin, on a fully taxable equivalent basis, was 5.37% for 2003, as compared to 5.54% for 2002. The net interest margin represents net interest income on a fully taxable equivalent basis expressed as a percentage of average total interest-earning assets. Excluding the change in the estimated value of accrued interest and fees in 2002, the net interest margin, on a fully taxable equivalent basis for 2003, would have decreased 34 basis points as compared to 2002, primarily as a result of average interest-earning assets growing at a faster rate than net interest income combined with the decrease in the yield earned on average interest-earning assets, partially offset by the decrease in the rate paid on average interest-bearing liabilities. Also, the increase in lower yielding average total investment securities and money market instruments, and other interest-earning assets as a percentage of average interest-earning assets further reduced the net interest margin.

The Corporation’s net interest margin, on a fully taxable equivalent basis, was 5.54% for 2002, as compared to 5.51% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the net interest margin, on a fully taxable equivalent basis, would have increased 20 basis points for 2002, primarily as a result of the actions by the FOMC throughout 2001 that impacted overall market interest rates and decreased the Corporation’s funding costs, as the Corporation’s interest-bearing liabilities matured and repriced during the continued low interest rate environment. The Corporation’s net interest margin in 2002 also had the full benefit of the actions by the FOMC throughout 2001.

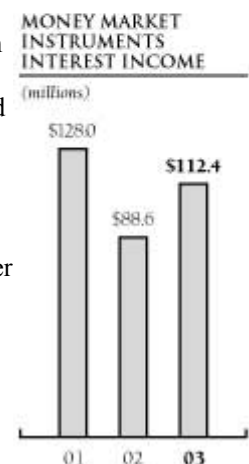
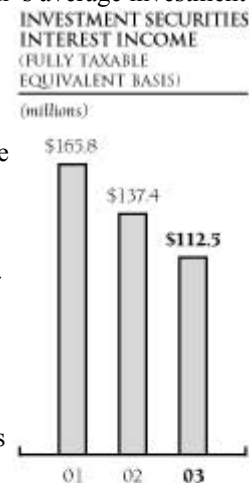
See “Off-Balance Sheet Arrangements–Impact of Off-Balance Sheet Securitization Transactions on the Corporation’s Results” for a discussion of the managed net interest margin and a reconciliation of the net interest margin ratio to the net interest margin ratio excluding the change in the estimated value of accrued interest and fees in 2002.

## INVESTMENT SECURITIES AND MONEY MARKET INSTRUMENTS

The Corporation seeks to maintain its portfolio of investment securities and money market instruments at a level appropriate for the Corporation’s liquidity needs. The Corporation’s average investment securities and money market instruments are affected by the timing of receipt of funds from asset securitization transactions, deposits, loan payments, and unsecured long-term debt and bank note issuances. Funds received from these sources are normally invested in short-term, liquid money market instruments and investment securities available-for-sale until the funds are needed for loan growth and other liquidity needs.

Average investment securities and money market instruments as a percentage of average interest-earning assets were 26.7% for 2003, as compared to 22.1% for 2002 and 21.6% for 2001. Money market instruments increased in 2003 to provide liquidity to support portfolio acquisition activity, to support anticipated loan growth, and in anticipation of possible market disruptions due to uncertainty created by world events. Also, money market instruments increased in 2003 as a result of the change in the timing of the remittance of principal collections on securitized loans to the trusts (see “Noninterest-Bearing Deposits” for further discussion). Money market instruments increased in 2002 to provide liquidity to support portfolio acquisition activity and anticipated loan growth.

Interest income on investment securities for 2003, on a fully taxable equivalent basis, decreased \$24.8 million or 18.1% to \$112.5 million for 2003 from 2002. The decrease in interest income on investment securities for 2003 was primarily a result of a 70 basis point decrease in the yield earned on average investment securities, partially offset by an increase in average investment securities of \$118.1 million from 2002. Interest income on



investment securities for 2002, on a fully taxable equivalent basis, decreased \$28.4 million or 17.2% to \$137.4 million for 2002 from 2001. The decrease in interest income on investment securities for 2002 was primarily a result of a 160 basis point decrease in the yield earned on average investment securities, partially offset by an increase in average investment securities of \$697.9 million from 2001.

Money market instruments include interest-earning time deposits in other banks and federal funds sold. Interest income on money market instruments was \$112.4 million for 2003, an increase of \$23.8 million or 26.9% from 2002. The increase in interest income on money market instruments was primarily the result of an increase in average money market instruments of \$3.3 billion for 2003, partially offset by a 59 basis point decrease in the yield earned on average money market instruments. Interest income on money market instruments was \$88.6 million for 2002, a decrease of \$39.4 million or 30.8% from 2001. The decrease in interest income on money market instruments was primarily the result of a 191 basis point decrease in the yield earned on average money market instruments for 2002, partially offset by a \$1.1 billion increase in average money market instruments for 2002.

**OTHER INTEREST-EARNING ASSETS**

Other interest-earning assets include the Corporation’s retained interests in securitization transactions, which are the interest-only strip receivable, cash reserve accounts, accrued interest and fees on securitized loans, and other subordinated retained interests. Also included in other interest-earning assets is Federal Reserve Bank stock. The Corporation accrues interest income related to its retained beneficial interests in its securitization transactions accounted for as sales in the Corporation’s audited consolidated financial statements. The Corporation includes these retained interests in accounts receivable from securitization in the audited consolidated statements of financial condition.

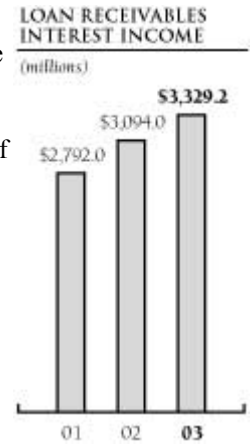
Interest income on other interest-earning assets decreased \$53.7 million or 14.9% to \$305.5 million for 2003 from 2002, as compared to a decrease of \$28.1 million or 7.3% to \$359.2 million for 2002 from 2001. The decrease in interest income on other interest-earning assets for 2003 was primarily the result of a decrease in the yield earned on average other interest-earning assets of 146 basis points in 2003. The decrease in the yield earned on average other interest-earning assets in 2003 was primarily the result of the decrease in the discount rate assumptions used in the valuation of the Corporation’s retained beneficial interests in its securitization transactions. The decrease in interest income on other interest-earning assets for 2002 was primarily the result of a decrease of 261 basis points in the yield earned on average other interest-earning assets in 2002, partially offset by an increase of \$613.1 million in average other interest-earning assets, as compared to 2001. The decrease in the yield earned on average other interest-earning assets was primarily the result of the decrease in the discount rate assumptions

Note 8: Asset Securitization to the audited consolidated financial statements provides further detail regarding the Corporation’s asset securitization transactions.

**LOAN RECEIVABLES**

Loan receivables consist of the Corporation’s loans held for securitization and the loan portfolio.

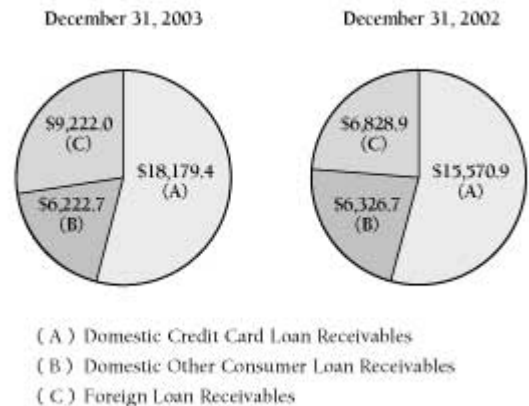
Interest income generated by the Corporation’s loan receivables increased \$235.2 million or 7.6% to \$3.3 billion for 2003 from 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, the interest income generated by the Corporation’s loan receivables would have increased by \$169.0 million or 5.3% from 2002. The increase in interest income on loan receivables for 2003 was primarily the result of an increase in average loan receivables of \$2.9 billion from 2002, partially offset by a decrease in the yield earned on average loan receivables. The yield earned by the Corporation for 2003 on average loan receivables was 11.81%, as compared to 12.22% for 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, the yield earned by the Corporation for 2003 on average loan receivables would have decreased 66 basis points from 2002.



Interest income generated by the Corporation’s loan receivables increased \$302.0 million or 10.8% to \$3.1 billion for 2002 from 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the interest income generated by the Corporation’s loan receivables would have increased by \$368.2 million or 13.2% from 2001. The increase in interest

**LOAN RECEIVABLES DISTRIBUTION**

(millions)



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used in the valuation of the Corporation' s retained beneficial interests in its securitization transactions.

**TABLE 7: LOAN RECEIVABLES DISTRIBUTION** (dollars in thousands)

December 31,	2003		2002		2001		2000		1999	
<b>Loans Held for Securitization (a)</b>										
Domestic:										
Credit card	\$ 10,274,262	30.6 %	\$ 9,157,751	31.9 %	\$ 7,943,965	32.2 %	\$ 6,396,652	32.1 %	\$ 7,835,429	44.3 %
Other consumer	11,653	—	40,962	.1	1,032,697	4.2	1,022,756	5.1	1,001,271	5.7
Total domestic loans held for securitization	10,285,915	30.6	9,198,713	32.0	8,976,662	36.4	7,419,408	37.2	8,836,700	50.0
Foreign (b)	2,798,190	8.3	1,830,914	6.4	953,286	3.9	852,525	4.3	855,916	4.9
Total loans held for securitization	13,084,105	38.9	11,029,627	38.4	9,929,948	40.3	8,271,933	41.5	9,692,616	54.9
<b>Loan Portfolio</b>										
Domestic:										
Credit card	7,905,173	23.5	6,413,116	22.3	6,439,471	26.1	6,612,913	33.1	5,116,381	28.9
Other consumer	6,211,016	18.5	6,285,751	21.9	5,094,198	20.7	2,799,289	14.0	1,268,019	7.2
Total domestic loan portfolio	14,116,189	42.0	12,698,867	44.2	11,533,669	46.8	9,412,202	47.1	6,384,400	36.1
Foreign (b)	6,423,783	19.1	4,998,014	17.4	3,169,947	12.9	2,270,702	11.4	1,586,693	9.0
Total loan portfolio	20,539,972	61.1	17,696,881	61.6	14,703,616	59.7	11,682,904	58.5	7,971,093	45.1
Total loan receivables	\$ 33,624,077	100.0%	\$ 28,726,508	100.0%	\$ 24,633,564	100.0%	\$ 19,954,837	100.0%	\$ 17,663,709	100.0%

Loans held for securitization includes loans originated through certain endorsing organizations or financial institutions who have the (a) contractual right to purchase the loans from the Corporation at fair value and the lesser of loan principal receivables eligible for securitization or sale or loan principal receivables which management intends to securitize or sell within one year.

(b) Note 28: Foreign Activities to the audited consolidated financial statements provides the foreign loan distribution between credit card and other consumer loans.

income on loan receivables for 2002 was primarily the result of an increase in average loan receivables of \$5.0 billion from 2001, partially offset by a decrease in the yield earned on average loan receivables. The yield earned by the Corporation for 2002 on average loan receivables was 12.22%, as compared to 13.73% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the yield earned by the Corporation for 2002 on average loan receivables would have decreased 126 basis points from 2001.

Table 7 presents the Corporation's loan receivables distributed by loan type. Loan receivables increased to \$33.6 billion at December 31, 2003, as compared to \$28.7 billion and \$24.6 billion at December 31, 2002 and 2001, respectively.

Domestic credit card loan receivables increased \$2.6 billion or 16.8% to \$18.2 billion at December 31, 2003, from \$15.6 billion at December 31, 2002, and \$14.4 billion at December 31, 2001. The

principal receivables, partially offset by an increase of \$9.7 billion in the Corporation's domestic credit card loan receivables when certain securitization transactions used principal payments on securitized loans to pay the investors rather than to purchase new loan principal receivables. When the trusts use principal payments to pay the investors, the Corporation's on-balance-sheet loan receivables increase by the amount of any new loans on the Customer accounts because the trusts are no longer purchasing new loan receivables from the Corporation. The Corporation acquired \$1.4 billion of domestic credit card loan receivables during 2003 and \$2.5 billion of domestic credit card loan receivables in 2002, including a \$1.3 billion credit card loan portfolio from Wachovia Corporation.

The yield on average domestic credit card loan receivables was 11.51% for 2003, as compared to 11.67% for 2002 and 13.61% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the yield on average domestic credit card loan

increase in domestic credit card loan receivables during 2003 and 2002 was the result of loan originations through marketing programs and loan portfolio acquisitions, partially offset by a net increase in securitized domestic credit card loan principal receivables. Higher Customer payment volume also slowed the growth in domestic credit card loan receivables for 2002, as compared to 2001.

During 2003, the Corporation securitized \$10.8 billion of domestic credit card loan principal receivables, partially offset by an increase of \$7.0 billion in the Corporation's domestic credit card loan receivables when certain securitization transactions used principal payments on securitized loans to pay the investors rather than to purchase new loan principal receivables. During 2002, the Corporation securitized \$13.3 billion of domestic credit card loan

receivables would have decreased 42 basis points for 2003 and 168 basis points for 2002. The decrease in the yield on average domestic credit card loan receivables for 2003 and 2002, excluding the change in the estimated value of accrued interest and fees in 2002, reflects lower interest rates offered to attract and retain Customers and to grow loan receivables, and an increase in the percentage of loans in the portfolio with promotional interest rates.

Domestic credit card loans held for securitization increased \$1.1 billion or 12.2% to \$10.3 billion at December 31, 2003, from \$9.2 billion at December 31, 2002 and \$7.9 billion at December 31, 2001. The increases reflect higher planned levels of domestic credit card securitizations.

**TABLE 8: RECONCILIATION OF AVERAGE LOAN RECEIVABLES TO AVERAGE MANAGED LOANS** (dollars in thousands)

Year Ended December 31,	2003			2002			2001		
	Average Balance	Yield	Income	Average Balance	Yield	Income	Average Balance	Yield	Income
<b>Loan receivables:</b>									
Domestic credit card	\$ 14,489,754	11.51%	\$ 1,667,843	\$ 13,581,330	11.67%	\$ 1,584,828	\$ 11,546,396	13.61%	\$ 1,546,396
Domestic other consumer	6,282,458	13.71	861,380	6,333,295	13.84	876,721	4,993,691	15.01	749,321
Foreign	7,411,606	10.79	800,010	5,400,575	11.71	632,463	3,799,301	12.41	470,162
Total loan receivables	28,183,818	11.81	3,329,233	25,315,200	12.22	3,094,012	20,339,388	13.73	2,765,879
Securitized loans	81,691,156	11.98	9,786,020	74,718,731	12.36	9,232,653	70,560,600	14.15	10,497,253
Total managed loans	\$ 109,874,974	11.94	\$ 13,115,253	\$ 100,033,931	12.32	\$ 12,326,665	\$ 90,899,988	14.06	\$ 13,247,132

Domestic other consumer loan receivables decreased \$104.0 million or 1.6% to \$6.2 billion at December 31, 2003, as compared to \$6.3 billion and \$6.1 billion at December 31, 2002 and 2001, respectively. The decrease in domestic other consumer loan receivables during 2003 was primarily a result of a decrease in the Corporation's sales finance loan receivables as the Corporation placed less emphasis on this product in 2003. This decrease was partially offset by a \$433.9 million portfolio acquisition comprised of unsecured lines of credit to small businesses during the fourth quarter of 2003. The increase in domestic other consumer loan receivables during 2002 was primarily a result of loan growth from lines of credit accessed through checks and growth in sales finance loans. Sales finance loans are loan products offered by the Corporation through associations with retailers where the Corporation provides financing to Customers to purchase the retailer's goods and services.

Table 8 reconciles the Corporation's average loan receivables to average managed loans.

The yield on average domestic other consumer loan receivables was 13.71% for 2003, as compared to 13.84% for 2002 and 15.01% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the yield on average domestic other consumer loan receivables would have decreased 51 basis points for 2003 and 79 basis points for 2002. The Corporation's domestic other consumer loans generally have higher delinquency and charge-off rates than the Corporation's domestic credit card loans. As a result, the Corporation generally charges higher interest rates on its domestic other consumer loans than on its domestic credit card loans. For 2003, the decrease in the yield on average domestic other consumer loan receivables, excluding the change in the estimated value of accrued interest and fees in 2002, reflects an increase in the percentage of unsecured loans and a decrease in the percentage of sales finance loans as compared to total domestic other consumer loans. The Corporation generally charges a higher interest rate for its sales finance products than its

Domestic other consumer loans held for securitization decreased \$29.3 million to \$11.7 million at December 31, 2003, from \$41.0 million at December 31, 2002, and \$1.0 billion at December 31, 2001. The Corporation originates and sells mortgage loans through MBNA Delaware. The mortgage loans that MBNA Delaware originates and intends to sell are the only items included in domestic other consumer loans held for securitization at December 31, 2003 and 2002. The 2002 domestic other consumer loans held for securitization decreased in comparison to 2001 as the Corporation reduced the amount of other consumer loans it intended to securitize or sell within one year at December 31, 2002. The net gains realized by the Corporation from the sale of its mortgage loans were not material to the Corporation's audited consolidated statements of income for 2003, 2002, and 2001.

Foreign loan receivables increased \$2.4 billion or 35.0% to \$9.2 billion at December 31, 2003, as compared to \$6.8 billion at December 31, 2002, and \$4.1 billion at December 31, 2001. The growth in foreign loan receivables for 2003 was a result of loan originations through marketing programs at the Corporation's two foreign bank subsidiaries, MBNA Europe and MBNA Canada, combined with the strengthening of foreign currencies against the U.S. dollar, partially offset by a net increase in securitization activity. The strengthening of foreign currencies increased foreign loan receivables by \$960.9 million in 2003. Also during 2003, the Corporation securitized approximately \$2.8 billion of foreign credit card loan principal receivables, partially offset by an increase of \$1.5 billion in the Corporation's foreign loan receivables when certain securitization transactions used principal payments to pay the investors rather than to purchase new loan principal receivables from the Corporation. The growth in foreign loan receivables for 2002 was primarily a result of loan originations through marketing programs at MBNA Europe and MBNA Canada, and foreign portfolio acquisitions. During 2002, MBNA Europe acquired approximately \$1.2 billion of credit card loan receivables from Alliance & Leicester

other unsecured lending products. For 2002, the decrease in the yield on average domestic other consumer loan receivables, excluding the change in the estimated value of accrued interest and fees in 2002, reflects lower promotional and other interest rates offered to attract and retain Customers and to grow loan receivables, and an increase in the percentage of loans in the portfolio with promotional rates.

plc. During 2002, the Corporation securitized approximately \$2.2 billion of foreign credit card loan principal receivables, partially offset by an increase of \$512.3 million in the Corporation's foreign loan receivables when certain securitization

**TABLE 9: RECONCILIATION OF THE AS REPORTED LOAN YIELDS TO THE LOAN YIELDS EXCLUDING THE CHANGE IN THE ESTIMATED VALUE OF ACCRUED INTEREST AND FEES IN 2002** (dollars in thousands)

Year Ended December 31, 2002

	Average Balance	Yield	Income
<b>As Reported</b>			
Loan receivables:			
Domestic credit card	\$ 13,581,330	11.67%	\$ 1,584,828
Domestic other consumer	6,333,295	13.84	876,721
Foreign	5,400,575	11.71	632,463
Total loan receivables	25,315,200	12.22	3,094,012
Securitized loans	74,718,731	12.36	9,232,653
Total managed loans	\$ 100,033,931	12.32	\$ 12,326,665
<b>Impact of the Change in the Estimated Value of Accrued Interest and Fees in 2002</b>			
Loan receivables:			
Domestic credit card	\$ 12,428		\$ 36,824
Domestic other consumer	8,228		25,219
Foreign	1,374		4,193
Total loan receivables	22,030		66,236
Securitized loans	71,386		211,425
Total managed loans	\$ 93,416		\$ 277,661
<b>Excluding the Change in the Estimated Value of Accrued Interest and Fees in 2002</b>			
Loan receivables:			
Domestic credit card	\$ 13,593,758	11.93	\$ 1,621,652
Domestic other consumer	6,341,523	14.22	901,940
Foreign	5,401,949	11.79	636,656
Total loan receivables	25,337,230	12.47	3,160,248
Securitized loans	74,790,117	12.63	9,444,078
Total managed loans	\$ 100,127,347	12.59	\$ 12,604,326

transactions used principal payments to pay the investors rather than to purchase new loan principal receivables from the Corporation. The strengthening of foreign currencies against the U.S. dollar also increased foreign loan receivables by \$509.7 million during 2002.

In January 2004, the Corporation acquired approximately \$1.5 billion in insurance premium finance loans as part of its acquisition of Premium Credit Limited, the largest independent insurance premium finance company in the U.K. Through insurance premium financing, the Corporation will make loans to businesses, including professionals and small business owners, to pay premiums on property, general liability, and other types of insurance. The Corporation will also provide loans to retail consumers to pay premiums on insurance. The Corporation will generate these loans through its relationships with a network of brokers and insurance companies.

The yield on average foreign loan receivables was 10.79% for 2003, as compared to 11.71% for 2002 and 12.41% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the yield on average foreign loan receivables would have decreased 100

Table 9 reconciles the Corporation's loan yields for 2002, to the loan yields excluding the change in the estimated value of accrued interest and fees in 2002.

Note 9: Geographical Diversification of Loans to the audited consolidated financial statements provides further detail regarding the Corporation's loan receivables.

## PREMISES AND EQUIPMENT

Effective January 1, 2003, the Corporation reclassified capitalized software from other assets to premises and equipment in the Corporation's audited consolidated statements of financial condition. Also, effective January 1, 2003, the Corporation reclassified computer software expense, which includes amortization of capitalized software, from the other expense component of other operating expenses to furniture and equipment expense in the Corporation's audited consolidated statements of income. Capitalized software was \$461.3 million (net of accumulated amortization of \$271.9 million) and \$330.5 million (net of accumulated amortization of \$216.2 million) at December 31, 2003, and December 31, 2002,



basis points for 2003 and 62 basis points for 2002. The decline in the yield on average foreign loan receivables for 2003 and 2002, excluding the change in the estimated value of accrued interest and fees in 2002, reflects lower promotional and other interest rates offered to attract and retain Customers and to grow loan receivables.

respectively. Computer software expense, including amortization of capitalized software, was \$127.3 million, \$101.6 million, and \$83.2 million for 2003, 2002, and 2001, respectively. For purposes of comparability, prior period amounts have been reclassified.

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In 2002, the Corporation launched a multi-phase project to extend the use of the Corporation's U.S. core Customer information systems to MBNA Europe's business in the U.K. and Ireland. MBNA Canada already uses this system. The capital expenditures associated with capitalized software for this project at December 31, 2003 and 2002, were \$214.0 million and \$89.4 million, respectively. The Corporation anticipates total capital expenditures of approximately \$300 million related to this project and estimates the project will be completed during the second quarter of 2004.

### ACCOUNTS RECEIVABLE FROM SECURITIZATION

Accounts receivable from securitization increased \$839.6 million or 12.1% to \$7.8 billion at December 31, 2003, as compared to \$6.9 billion at December 31, 2002. The increase in accounts receivable from securitization is primarily related to an increase in the amount due from the trusts due to an increase in the amounts due on the sale of new loan principal receivables to the trust and the revaluation of the Corporation's interest-only strip receivable.

Note 8: Asset Securitization to the audited consolidated financial statements provides further detail regarding accounts receivable from securitization.

### PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges increased \$87.2 million or 21.1% to \$499.8 million at December 31, 2003, as compared to \$412.6 million at December 31, 2002. The increase was primarily related to increases in prepaid royalties to endorsing organizations of \$49.5 million and deferred loan origination costs of \$20.1 million.

### OTHER ASSETS

Other assets increased \$211.1 million or 12.6% to \$1.9 billion at December 31, 2003, as compared to \$1.7 billion at December 31, 2002. The increase is primarily the result of increases in the Corporation's Community Development investments in the form of limited partnership interests that qualify under the Community Reinvestment Act, the cash surrender value of corporate owned life insurance policies, and the fair market value of interest rate swap agreements and foreign exchange swap agreements accounted for as fair value hedges under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement No. 133"), as amended. The increase in the fair market value of the Corporation's interest rate swap agreements and foreign exchange swap agreements that qualified for, and are accounted for, as fair value hedges was partially offset by changes in the carrying value of the corresponding hedged long-term debt and bank notes. In addition to the increases discussed above, on July 1, 2003, the Corporation's other assets increased by \$32.9 million related to the deconsolidation of MBNA Capital A, MBNA Capital B, MBNA Capital C, MBNA Capital D, and MBNA Capital E, each

Note 17: Long-Term Debt and Bank Notes to the audited consolidated financial statements provides further discussion.

Note 3: Significant Accounting Policies—Derivative Financial Instruments and Hedging Activities and Note 30: Fair Value of Financial Instruments to the audited consolidated financial statements provide further detail regarding the Corporation's derivative financial instruments and hedging activities.

### INTEREST-BEARING DEPOSITS

Total interest expense on deposits decreased \$147.7 million or 11.8% to \$1.1 billion for 2003, compared to \$1.3 billion for 2002. The decrease in interest expense on deposits for 2003 was primarily the result of an 88 basis point decrease in the rate paid on average interest-bearing deposits, partially offset by a \$2.6 billion increase in average interest-bearing deposits. The decrease in the rate paid on average interest-bearing deposits reflects the continued impact of actions by the FOMC throughout 2001, the fourth quarter of 2002, and the second quarter of 2003, that impacted overall market interest rates and decreased the funding costs of the Corporation.

Total interest expense on deposits decreased \$189.2 million or 13.1% to \$1.3 billion for 2002, as compared to \$1.4 billion for 2001. The decrease in interest expense on deposits for 2002 was primarily the result of a 140 basis point decrease in the rate paid on average interest-bearing deposits, partially offset by a \$3.3 billion increase in average interest-bearing deposits. The decrease in the rate paid on average interest-bearing deposits reflects actions by the FOMC throughout 2001 that impacted overall market interest rates and decreased the funding costs of the Corporation's deposits as a portion of the Corporation's deposits matured and were reinvested in a lower interest rate environment.

The Corporation's money market deposit accounts are variable-rate products. In addition, the Corporation's foreign time deposits, although fixed-rate, generally mature within one year. Therefore, the decrease in market interest rates in the fourth quarter of 2002 and the second quarter of 2003 permitted the Corporation to decrease the rate paid on average money market deposit accounts and average foreign time deposits during the year ended December 31, 2003, as compared to the same period in 2002. The Corporation's domestic time deposits are primarily fixed-rate deposits with maturities that range from three months to five years. Therefore, the Corporation realized the benefits of the decrease in market rates in 2002 and 2003 on domestic time deposits more slowly than the benefits of lower market rates on money market deposits and foreign time deposits and continued to realize the benefit of the decrease in market rates throughout 2001 on domestic time deposits.

The increases in average interest-bearing deposits for 2003 and 2002 were a result of the Corporation's continued emphasis on marketing domestic time deposits and money market deposit accounts to members of certain endorsing organizations, as well as obtaining

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a statutory business trust created under the laws of the State of Delaware.

other domestic deposits through the use of third-party intermediaries, to fund loan and other asset growth and to diversify funding sources.

## **BORROWED FUNDS**

Borrowed funds include both short-term borrowings and long-term debt and bank notes.

Interest expense on short-term borrowings decreased \$3.8 million or 8.9% to \$39.1 million for 2003, compared to an increase of \$18.2 million or 73.5% to \$43.0 million for 2002. The decrease in interest expense on short-term borrowings for 2003 was primarily a result of a decrease of \$111.2 million in average short-term borrowings. The increase in interest expense on short-term borrowings for 2002 was primarily a result of an increase of \$689.5 million in average short-term borrowings, partially offset by a 96 basis point decrease in the interest rate paid on average short-term borrowings. The increase in average short-term borrowings in 2002 was primarily a result of on-balance-sheet structured financings totaling \$1.0 billion, which were entered into during the second half of 2001. These structured financings were secured by \$1.1 billion of domestic other consumer loan receivables. For 2002, the decrease in the rate paid on average short-term borrowings reflects actions by the FOMC throughout 2001 that impacted overall market interest rates.

Note 16: Short-Term Borrowings to the audited consolidated financial statements provides further detail regarding the Corporation's short-term borrowings.

Interest expense on long-term debt and bank notes increased \$56.6 million or 18.6% to \$361.6 million for 2003, compared to a decrease of \$39.6 million or 11.5% to \$305.0 million for 2002. The increase in interest expense on long-term debt and bank notes in 2003 was primarily a result of an increase in average long-term debt and bank notes of \$2.5 billion, partially offset by a decrease in the interest rate paid on average long-term debt and bank notes of 37 basis points. The decrease in the interest rate paid on average long-term debt and bank notes for 2003 reflects actions by the FOMC in the fourth quarter of 2002 and the second quarter of 2003 that impacted overall market interest rates. The decrease in interest expense on long-term debt and bank notes in 2002 was primarily the result of a decrease in the interest rate paid on average long-term debt and bank notes of 167 basis points, partially offset by an increase in average long-term debt and bank notes of \$1.7 billion. The decrease in the interest rate paid on average long-term debt and bank notes for 2002 reflects actions by the FOMC throughout 2001 that impacted overall market interest rates.

Interest expense on domestic long-term debt and bank notes increased \$8.8 million or 5.1% to \$182.2 million during 2003, as compared to a decrease of \$68.3 million or 28.3% to \$173.5 million for 2002. The increase in interest expense on domestic long-term debt and bank notes for 2003 was primarily the result of an increase in average long-term debt and bank notes of \$1.6 billion, partially offset by a decrease of 55 basis points in the interest rate paid on average domestic long-term debt and bank notes, as compared to 2002. The Corporation issued additional long-term debt and bank notes during 2003 to fund

loan and other asset growth and to diversify funding sources. The decrease in the rate paid on average domestic long-term debt and bank notes for 2003 reflects actions by the FOMC in the fourth quarter of 2002 and the second quarter of 2003 that impacted overall market interest rates. The decrease in interest expense on domestic long-term debt and bank notes for 2002 was primarily a result of a decrease of 218 basis points in the interest rate paid on average domestic long-term debt and bank notes, as compared to 2001, partially offset by an increase in average domestic long-term debt and bank notes of \$1.1 billion. For 2002, the decrease in the rate paid on average domestic long-term debt and bank notes reflects actions by the FOMC throughout 2001 that impacted overall market interest rates.

Interest expense on foreign long-term debt and bank notes increased \$47.8 million or 36.3% to \$179.3 million for 2003, and increased \$28.7 million or 28.0% to \$131.5 million for 2002. The increases in interest expense on foreign long-term debt and bank notes were primarily a result of an increase in average foreign long-term debt and bank notes of \$921.9 million and \$655.1 million for 2003 and 2002, respectively. MBNA Europe and MBNA Canada issued additional long-term debt and bank notes in 2003 and 2002 to fund loan and other asset growth and to diversify funding sources.

The Corporation uses interest rate swap agreements and foreign exchange swap agreements to change a portion of fixed-rate long-term debt and bank notes to floating-rate long-term debt and bank notes to more closely match the interest rate sensitivity of the Corporation's assets. The Corporation also uses foreign exchange swap agreements to minimize its foreign currency exchange risk on a portion of long-term debt and bank notes issued by MBNA Europe.

Note 17: Long-Term Debt and Bank Notes to the audited consolidated financial statements provides further detail regarding the Corporation's long-term debt and bank notes.

## **NONINTEREST-BEARING DEPOSITS**

Noninterest-bearing deposits increased \$1.5 billion or 164.2% to \$2.4 billion at December 31, 2003, as compared to \$915.7 million at December 31, 2002. This increase was a result of the change in the timing of the remittance of principal collections on securitized loans to the trusts. Since the second quarter of 2003, the Corporation is no longer obligated to transfer principal collections on the Corporation's primary domestic credit card securitization trust on a daily basis. These funds are now retained on behalf of the trust with the Corporation until the funds are remitted on a monthly basis. The funds are primarily invested in money market instruments until they are remitted to the trust.

## **ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities increased \$609.1 million or 29.5% to \$2.7 billion at December 31, 2003, as compared to \$2.1 billion at December 31, 2002. This increase was primarily

the result of increases in the gross unrealized losses on the Corporation's interest rate swap agreements, forward exchange contracts, and foreign exchange swap agreements accounted for under Statement No. 133, an increase in income taxes payable, and an increase in amounts accrued for Customer reward programs expected to be redeemed in future periods.

### ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income increased \$324.6 million to \$409.3 million at December 31, 2003, as compared to \$84.7 million at December 31, 2002. The increase was primarily attributable to favorable foreign currency translation related to the strengthening of foreign currencies against the U.S. dollar.

Note 19: Comprehensive Income to the audited consolidated financial statements provides further detail on the components of other comprehensive income.

### TOTAL OTHER OPERATING INCOME

Total other operating income includes securitization income, interchange income, credit card fees, other consumer loan fees, insurance income, and other income. Total other operating income increased \$1.1 billion or 15.9% to \$7.8 billion for 2003, as compared to \$6.8 billion in 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, total other operating income for 2003 would have increased \$875.2 million or 12.6% from 2002. Total other operating income increased \$79.6 million or 1.2% for 2002 as compared to \$6.7 billion for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, total other operating income would have increased \$277.0 million or 4.2% for 2002.

TOTAL OTHER OPERATING INCOME  
(millions)

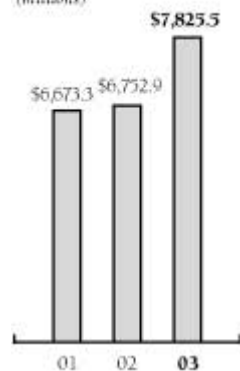


Table 10 presents the components of total other operating income.

**TABLE 10: COMPONENTS OF TOTAL OTHER OPERATING INCOME** (dollars in thousands)

	Year Ended December 31, 2003	2002	2001
<b>Securitization income:</b>			
Excess servicing fees (a)	\$ 4,875,381	\$ 4,304,428	\$ 4,206,551
Loan servicing fees (a)	1,535,427	1,403,132	1,311,537
Gain from the sale of loan principal receivables for new securitizations (b)	124,450	154,556	96,732
Net revaluation of the interest-only strip receivable (b)	(11,302 )	(195,764 )	107,504
Total securitization income	6,523,956	5,666,352	5,722,324
Interchange	391,827	357,410	300,957
Credit card fees	513,605	385,422	295,101
Other consumer loan fees	108,226	100,862	92,447
Insurance	231,941	181,474	145,338
Other	55,925	61,403	117,149
Total other operating income	\$ 7,825,480	\$ 6,752,923	\$ 6,673,316

(a) Total securitization servicing fees include excess servicing fees and loan servicing fees.

(b) The net gain (or loss) from securitization activity includes the gain from the sale of loan principal receivables for new securitizations and the net revaluation of the interest-only strip receivable.

Certain components and increases in total other operating income are discussed as follows:

### SECURITIZATION INCOME

Securitization income includes excess servicing and loan servicing fees, the gain from the sale of loan principal receivables recognized for new securitizations, and the net revaluation of the Corporation's interest-only strip receivable. The Corporation has the rights to all excess revenue generated from the securitized loans arising after the

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trusts absorb the cost of funds, loan servicing fees and credit losses (“excess servicing fees”). The Corporation continues to service the securitized loans and receives an annual contractual servicing fee of approximately 2% of the investor principal outstanding (“loan servicing fees”). The Corporation

recognizes a gain from the sale of loan principal receivables for new securitizations. Securitization income is also impacted by the net revaluation of the Corporation's interest-only strip receivable as a result of changes in the estimated excess spread to be earned in the future and changes in projected loan payment rates and securitization transactions that are currently in their scheduled accumulation period. The accumulation period occurs when the trusts begin accumulating principal collections to make payments to the investors, instead of purchasing new loan principal receivables from the Corporation.

Securitization income increased \$857.6 million or 15.1% to \$6.5 billion for 2003, as compared to a decrease of \$56.0 million or 1.0% to \$5.7 billion for 2002 from 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, securitization income would have increased \$685.6 million or 11.7% for 2003 and \$116.0 million or 2.0% for 2002. The increases are discussed below.

### Total Securitization Servicing Fees

Total securitization servicing fees include both excess servicing fees and loan servicing fees. These items are discussed below.

Table 11 provides further detail regarding total excess servicing fees.

**TABLE 11: COMPONENTS OF TOTAL EXCESS SERVICING FEES** (dollars in thousands)

Year Ended December 31, 2003	2002	2001	
Interest income on securitized loans	\$ 9,484,680	\$ 8,877,207	\$ 9,602,048
Interest expense on securitized loans	(1,630,415)	(1,833,105)	(3,055,246)
Net interest income on securitized loans	7,854,265	7,044,102	6,546,802
Other fee income on securitized loans	2,932,012	2,498,841	2,423,300
Net credit losses on securitized loans	(4,375,469)	(3,835,383)	(3,452,014)
Total securitization servicing fees	6,410,808	5,707,560	5,518,088
Loan servicing fees	(1,535,427)	(1,403,132)	(1,311,537)
Total excess servicing fees	\$ 4,875,381	\$ 4,304,428	\$ 4,206,551

### Excess Servicing Fees

Excess servicing fees increased \$571.0 million or 13.3% to \$4.9 billion for 2003, as compared to an increase of \$97.9 million or 2.3% to \$4.3 billion for 2002 from \$4.2 billion for 2001. The increases for 2003 and 2002 were primarily the result of increases in net interest income and other fee income earned on securitized loans, partially offset by an increase in net credit losses on securitized loans.

The net interest income earned on securitized loans increased excess servicing fees by \$810.2 million or 11.5% to \$7.9 billion for 2003, as compared to an increase of \$497.3 million or 7.6% for 2002 from 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, net interest income earned on securitized loans would have increased excess servicing fees by \$598.8 million or 8.3% for 2003 and \$708.7 million or 10.8% for 2002. Securitized net interest income, excluding the change in the estimated value of accrued interest and fees in 2002, was affected by the growth in average securitized loans, which increased \$7.0 billion or 9.3% to \$81.7 billion for 2003, as compared to an increase of \$4.2 billion or 5.9% to \$74.7 billion for 2002. The growth in average securitized loans was consistent with the overall growth in the Corporation's average managed loans, which increased 9.8% and 10.0% for 2003 and 2002, respectively.

In addition, the net interest margin on securitized interest-earning assets increased to 10.09% for 2003, as compared to 9.93% in 2002, and 9.72% for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the securitized net interest margin would have decreased 14 basis points for 2003, and would have increased 51 basis points for 2002. The securitized net interest margin represents securitized net interest income for the period expressed as a percentage of average securitized interest-earning assets. Refer to "Off-Balance Sheet Arrangements—Impact of Off-Balance Sheet Securitization Transactions on the Corporation's Results" for a reconciliation of the Corporation's net interest margin on securitized interest-earning assets to the net interest margin and a reconciliation of the securitized net interest margin ratio to the securitized net interest margin ratio excluding the change in the estimated value of accrued interest and fees in 2002. Changes in the yield earned on average securitized loans and the interest rate paid to investors in the Corporation's securitization transactions impact the securitized net interest margin. The yield earned on average securitized loans was 11.98% for 2003, as compared to 12.36% in 2002, and 14.15% in 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the yield earned on average securitized loans would have decreased 65 basis points for 2003 and 152 basis points for 2002. Refer to "Loan Receivables" for a reconciliation of the securitized loan yields to the loan receivables loan yields and a reconciliation of securitized loan yields to the securitized loan yields excluding the change in the estimated value of accrued interest and fees in 2002. The decrease in the yield earned on average securitized loans for 2003 and 2002, excluding the change in the estimated value of accrued interest and fees in 2002, reflects lower average interest rates offered to attract and retain Customers and to grow

managed loans. The average interest rate paid to investors in the Corporation's securitization transactions was 2.04% for 2003, as compared to 2.51% in 2002, and 4.44% in 2001. Refer to "Off-Balance Sheet Arrangements—Impact of Off-Balance Sheet Securitization Transactions on the Corporation's Results" for a reconciliation of the average interest rate paid to investors in the Corporation's securitization transactions to the average interest rate on net-interest bearing liabilities. The decrease in the average interest rate paid to investors in 2003 reflects the continued impact of actions by the FOMC throughout 2001, in the fourth quarter of 2002, and the second quarter of 2003 that impacted overall market interest rates. The decrease in the average interest rate paid to investors in 2002 reflects actions by the FOMC throughout 2001 that impacted overall market interest rates. The interest rate paid to investors generally resets on a monthly basis.

Other fee income generated by securitized loans increased excess servicing fees by \$433.2 million or 17.3% for 2003, as compared to \$75.5 million or 3.1% for 2002, primarily as a result of higher average securitized loans. The increase in 2003 is also attributable to an increase in the average fees assessed related to the implementation of modified fee structures, which included higher late, overlimit, and cash advance fees. Excluding the change in the estimated value of accrued interest and fees in 2002, the increase in other fee income in 2003 would have been smaller. Therefore, the change in 2002 would have been larger.

The net charge-off rate on securitized loans increased 23 basis points to 5.36% in 2003 as compared to an increase of 24 basis points to 5.13% in 2002 from 4.89% in 2001. The increase was consistent with the overall trend in the Corporation's managed loan portfolio. The increase in net credit losses on securitized loans decreased excess servicing fees by \$540.1 million or 14.1% for 2003 and \$383.4 million or 11.1% for 2002.

An additional decrease to excess servicing fees was a result of the increase in loan servicing fees, which is described below.

## LOAN SERVICING FEES

Loan servicing fees during 2003 increased \$132.3 million or 9.4% to \$1.5 billion, as compared to an increase of \$91.6 million or 7.0% to \$1.4 billion for 2002, from \$1.3 billion for 2001. The increase was a result of a \$7.0 billion or 9.3% increase in average securitized loans for 2003, as compared to a \$4.2 billion or 5.9% increase in average securitized loans for 2002. The growth in average securitized loans reflects the overall growth in the Corporation's average managed loans, which increased 9.8% and 10.0% for 2003 and 2002, respectively.

## NET GAIN (OR LOSS) FROM SECURITIZATION ACTIVITY

spread used to value the interest-only strip receivable for securitized credit card and other consumer loan principal receivables, and all other changes in the fair value of the interest-only strip receivable. The net gain from securitization activity was \$113.1 million for 2003, as compared to a net loss of \$41.2 million in 2002, resulting in an increase in securitization income of \$154.4 million for 2003. Excluding the change in the estimated value of accrued interest and fees in 2002, there would have been a net loss of \$165.1 million for 2002, which would have resulted in an increase in securitization income of \$278.3 million for 2003.

During the third quarter of 2003, the Corporation began including projected express payment and returned check fees in the determination of the fair value of the interest-only strip receivable. Upon inclusion of projected express payment and returned check fees, the interest-only strip receivable and securitization income increased by approximately \$28.9 million. For the fourth quarter of 2003, this inclusion increased the interest-only strip receivable and securitization income an additional \$3.0 million. The Corporation began including express payment fees in the determination of the fair value of the interest-only strip receivable because Customers are increasingly choosing to utilize express payment services to ensure that their payments are received on time and that they do not incur a late fee. The Corporation does not expect the inclusion of these fees to have a material effect on the Corporation's earnings in subsequent periods.

The net loss from securitization activity was \$41.2 million for 2002, as compared to a net gain of \$204.2 million in 2001, resulting in a decrease in securitization income of \$245.4 million for 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, there would have been a net loss of \$165.1 million for 2002, which would have resulted in a decrease in securitization income of \$369.3 million for 2002.

During 2002, the change in the estimated value of accrued interest and fees in 2002 reduced the carrying value of accrued interest and fees on securitized loans by \$295.9 million. The Corporation also adjusted the value of the interest-only strip receivable as a result of the change in the estimated value of the uncollectible accrued interest and fees in 2002. The Corporation had always included an estimate of uncollectible accrued interest and fees in determining the value of the interest-only strip receivable. Since the Corporation now recognizes uncollectible interest and fees in the estimated value of accrued interest and fees on securitized loans, the estimated value of the interest-only strip receivable was adjusted at September 30, 2002. The value of uncollectible accrued interest and fees on securitized loans that are currently owed by the underlying Customer are now considered in the value of accrued interest and fees on securitized loans. Accordingly, the estimated value of the interest-only strip receivable now only considers the impact of uncollectible interest and fees that will be



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The net gain (or loss) from securitization activity consists of gains associated with the sale of new loan principal receivables (net of securitization transaction costs), changes in the projected excess

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billed to the underlying Customer in the future. This adjustment caused the interest-only strip receivable to increase \$123.9 million at September 30, 2002. The net impact of these changes resulted in a \$172.0 million reduction to accounts receivable from securitization.

Certain components of the net gain (or loss) from securitization activity are discussed separately as follows:

### **GAIN FROM THE SALE OF LOAN PRINCIPAL RECEIVABLES**

The gain from the sale of loan principal receivables for new securitization transactions that the Corporation recognizes as sales in accordance with Statement No. 140 is included in securitization income in the Corporation's audited consolidated statements of income. The gain was \$124.5 million (net of securitization transaction costs of \$51.2 million) for 2003 (on the sale of \$13.6 billion of credit card loan principal receivables in 2003), as compared to a gain of \$154.6 million (net of securitization transaction costs of \$41.7 million) in 2002 (on the sale of \$15.5 billion of credit card loan principal receivables in 2002), and a gain of \$96.7 million (net of securitization transaction costs of \$62.3 million) in 2001 (on the sale of \$12.4 billion of credit card loan principal receivables in 2001).

### **NET REVALUATION OF THE INTEREST-ONLY STRIP RECEIVABLE**

The projected excess spread used to value the interest-only strip receivable for securitized credit card loan principal receivables increased to 5.19% at December 31, 2003, as compared to 4.84% at December 31, 2002. The increase in the projected excess spread for December 31, 2003, used to value the interest-only strip receivable, was the result of a decrease in the projected interest rate paid to investors, combined with lower projected charge-off rates on securitized credit card loan principal receivables, and the inclusion of projected express payment and returned check fees in the excess spread used to value the interest-only strip receivable, which began in the third quarter of 2003, partially offset by a decrease in projected interest yields on securitized credit card loan principal receivables resulting from the Corporation's pricing decisions to attract and retain Customers and to grow managed loans. This increase in the projected excess spread used to value the interest-only strip receivable for securitized credit card loan principal receivables was offset by an increase in the projected loan payment rates and securitization transactions that are currently in their scheduled accumulation period. The projected excess spread used to value the interest-only strip receivable for securitized other consumer loan principal receivables increased to 1.95% at December 31, 2003, as compared to .91% at December 31, 2002. The increase in the projected excess spread used to value the interest-only strip receivable was the result of lower projected charge-off rates on securitized other consumer loan principal receivables combined with

only strip receivable, which began in the third quarter of 2003. The net of these items and all other changes in the fair value of the interest-only strip receivable for both securitized credit card loan principal receivables and securitized other consumer loan principal receivables resulted in a \$11.3 million loss for 2003.

The projected excess spread used to value the interest-only strip receivable for securitized credit card loan principal receivables decreased to 4.84% at December 31, 2002, as compared to 5.14% at December 31, 2001. The decrease in the projected excess spread for December 31, 2002, used to value the interest-only strip receivable, was the result of a decrease in the projected interest yields on securitized credit card loan principal receivables resulting from the Corporation's pricing decisions to attract and retain Customers and to grow managed loans, partially offset by the change in the estimated value of accrued interest and fees in 2002. The decrease in the projected excess spread used to value the interest-only strip receivable for securitized credit card loan principal receivables was combined with an increase in the projected loan payment rates and securitization transactions that are currently in their scheduled accumulation period. The projected excess spread used to value the interest-only strip receivable for securitized other consumer loan principal receivables decreased to .91% at December 31, 2002, as compared to 2.60% at December 31, 2001. The decrease in the projected excess spread used to value the interest-only strip receivable was the result of an increase in projected charge-off rates on securitized other consumer loan principal receivables, a decrease in the projected interest yield on securitized other consumer loan principal receivables, offset by the change in the estimated value of accrued interest and fees in 2002. The net of these items and all other changes in the fair value of the interest-only strip receivable for both securitized credit card loan principal receivables and securitized other consumer loan principal receivables resulted in a \$195.8 million loss for 2002.

Note 8: Asset Securitization to the audited consolidated financial statements provides further detail regarding the sensitivity to changes in the key assumptions and estimates used in determining the estimated value of the interest-only strip receivable.

### **INTERCHANGE INCOME**

Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network as compensation for risk, grace period, and other operating costs. Such fees are set annually by MasterCard International Incorporated ("MasterCard") and Visa U.S.A. Incorporated ("Visa").

Interchange income increased \$34.4 million or 9.6% to \$391.8 million in 2003, as compared to an increase of \$56.5 million or 18.8% to \$357.4 million for 2002 from \$301.0 million for 2001. The increases in interchange income in 2003 and 2002 were primarily the result of increases in cardholder

a decrease in the projected interest rate paid to investors, and the inclusion of projected express payment and returned check fees in the excess spread used to value the interest-

sales volume. Additionally in 2003, MasterCard and Visa increased their interchange rates, which were partially offset by higher costs associated with Customer reward programs. Interchange income on securitized loans is included in securitization income.

### **CREDIT CARD FEES**

Credit card fees include annual, late, overlimit, returned check, cash advance, express payment, and other miscellaneous fees on credit card loans.

Credit card fees increased \$128.2 million or 33.3% to \$513.6 million for 2003, as compared to an increase of \$90.3 million or 30.6% to \$385.4 million for 2002 from \$295.1 million for 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, credit card fees would have increased \$113.2 million or 28.3% for 2003 and \$105.3 million or 35.7% for 2002. The increase in credit card fees for 2003 was primarily the result of the growth in the Corporation's loan receivables, the number of accounts, and an increase in the average fees assessed related to the implementation of modified fee structures, which included higher late, overlimit, and cash advance fees. The increase in credit card fees in 2002 was primarily the result of the growth in the Corporation's loan receivables, the number of accounts, and the number of fees assessed. Credit card fees on securitized loans are included in securitization income.

### **INSURANCE INCOME**

The Corporation's insurance income primarily relates to fees received for marketing credit related life and disability insurance and credit protection products to its Customers. The Corporation recognizes insurance income over the policy or contract period as earned.

Insurance income increased \$50.5 million or 27.8% to \$231.9 million in 2003, as compared to an increase of \$36.1 million or 24.9% to \$181.5 million for 2002 from \$145.3 million for 2001. The increases for 2003 and 2002 were primarily the result of increases in the number of accounts using credit related insurance products and in the fees associated with these products. Insurance income on securitized loans is included in securitization income.

### **TOTAL OTHER OPERATING EXPENSE**

Total other operating expense includes salaries and employee benefits, occupancy expense of premises, furniture and equipment expense, and other operating expenses. Total other operating expense increased \$422.2 million or 9.0% to \$5.1 billion for 2003, as compared to an increase of \$227.1 million or 5.1% to \$4.7 billion for 2002 from \$4.5 billion for 2001. The growth in total other operating

The Corporation added 10.7 million new accounts in 2003, as compared to 12.0 million new accounts in 2002, including 1.2 million accounts from the Wachovia portfolio acquisition and 1.0 million accounts from the Alliance & Leicester plc portfolio acquisition, and 9.5 million new accounts in 2001. The Corporation added 384 new endorsements from organizations during 2003, as compared to 405 new endorsements in 2002 and 439 new endorsements in 2001. Certain components of other operating expenses are discussed below.

### **SALARIES AND EMPLOYEE BENEFITS**

Salaries and employee benefits increased \$135.7 million or 7.0% to \$2.1 billion for 2003, as compared to an increase of \$126.1 million or 6.9% to \$1.9 billion in 2002 from \$1.8 billion in 2001. The increase in salaries and employee benefits for 2003 is primarily related to increases in employee salary levels and additional MBNA Europe employees as a result of the operations in Spain. The increase for 2003 also includes the release of restrictions on restricted stock awards of \$41.8 million. The increase in salaries and employee benefits for 2002 was primarily related to increases in employee salary levels and an additional compensation expense of \$51.3 million associated with the immediate vesting of restricted stock awards on the death of a holder of the awards.

The Corporation had approximately 26,500, 26,100, and 25,400 full-time equivalent employees at December 31, 2003, 2002, and 2001, respectively.

Included in salaries and employee benefits is the net periodic benefit cost for the Corporation's noncontributory deferred benefit pension plan ("Pension Plan") and the supplemental executive retirement plan ("SERP") of \$96.1 million in 2003, as compared to \$66.6 million in 2002 and \$34.3 million in 2001. The Corporation anticipates, based on current conditions, that net periodic benefit cost for the Pension Plan and the SERP plan will increase by \$20.9 million in 2004 because of a lower assumed discount rate and normal operations of the plans, partially offset by a lower assumed rate of compensation increase. The Corporation expects to contribute the maximum tax deductible contribution to the Pension Plan in 2004, which is estimated to be approximately \$75 million. In 2003, the Corporation contributed \$69.0 million to the Pension Plan.

Note 22: Employee Benefits to the audited consolidated financial statements provides further detail regarding the Corporation's employee benefits.

### **OTHER EXPENSE COMPONENT OF OTHER OPERATING EXPENSE**

The other expense component of other operating expense increased \$265.2 million or 11.8% to \$2.5 billion for 2003, as compared to \$2.2

expense for 2003 and 2002 primarily reflects the Corporation's continued investment in attracting, servicing, and retaining credit card and other consumer loan Customers.

billion in 2002 and 2001. Certain components of the other expense component of other operating expense are discussed separately.

Table 12 provides further detail regarding the other expense component of the Corporation's other operating expenses.

**TABLE 12: OTHER EXPENSE COMPONENT OF OTHER OPERATING EXPENSE** (dollars in thousands)

Year Ended December 31,	2003	2002	2001
Purchased services	\$ 582,724	\$ 544,104	\$ 498,809
Advertising	421,965	315,393	268,897
Collection	77,482	54,872	46,260
Stationery and supplies	41,833	48,073	45,477
Service bureau	83,171	75,444	63,375
Postage and delivery	459,592	366,129	354,226
Telephone usage	89,448	86,562	84,900
Loan receivable fraud losses	139,193	160,639	172,366
Amortization of intangible assets	410,973	348,727	381,792
Other	207,031	248,317	274,329
<b>Total other expense</b>	<b>\$ 2,513,412</b>	<b>\$ 2,248,260</b>	<b>\$ 2,190,431</b>

### ADVERTISING

Advertising expense increased \$106.6 million or 33.8% to \$422.0 million for 2003, as compared to an increase of \$46.5 million or 17.3% to \$315.4 million in 2002 from \$268.9 million in 2001. The increases in advertising expense for 2003 and 2002 reflect the Corporation's continued investment in attracting and retaining Customers. Also during 2003, the Corporation increased the marketing of its products through increased levels of mailings to existing and potential Customers.

### POSTAGE AND DELIVERY

Postage and delivery expense increased \$93.5 million or 25.5% to \$459.6 million for 2003, as compared to an increase of \$11.9 million or 3.4% to \$366.1 million in 2002 from \$354.2 million in 2001. The increases in postage and delivery expense for 2003 and 2002 reflect the Corporation's continued investment in attracting, servicing, and retaining Customers. Also during 2003, the Corporation increased the marketing of its products through increased levels of mailings to existing and potential Customers.

### AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets increased \$62.2 million or 17.8% to \$411.0 million for 2003, as compared to a decrease of \$33.1 million or 8.7% to \$348.7 million in 2002 from \$381.8 million in 2001. The increase in amortization of intangible assets for 2003 was the result of higher levels of PCCRs, primarily from the Wachovia and Alliance &

The decrease in amortization of intangible assets in 2002 was primarily attributable to the change in the Corporation's amortization period of its domestic PCCRs. Prior to 2002, the Corporation amortized the value of its domestic PCCRs over a period of 10 years. In the first quarter of 2002, the Corporation completed a statistical study of the useful lives of its acquired domestic PCCRs. As a result of the study, effective January 1, 2002, the Corporation extended the amortization period of its domestic PCCRs to 15 years to more appropriately match the amortization period with the domestic PCCRs' estimated useful lives.

As a result of the change in the amortization period for domestic PCCRs, the Corporation's 2002 income before income taxes increased \$100.5 million (\$63.7 million after taxes). Excluding the change in the amortization period of the domestic PCCRs, the Corporation's earnings per common share would have been \$1.32 and earnings per common share—assuming dilution would have been \$1.30 in 2002.

Note 3: Significant Accounting Policies—Intangible Assets to the audited consolidated financial statements provides further detail regarding the Corporation's intangible assets.

### OTHER

Other expense decreased \$41.3 million or 16.6% to \$207.0 million for 2003, as compared to a decrease of \$26.0 million or 9.5% to \$248.3 million in 2002 from \$274.3 million in 2001. The decrease in other expense for 2003 was primarily related to increases in the market value of company owned life insurance, as compared to decreases in the market value in 2002.

### INCOME TAXES

Income tax expense increased \$301.4 million or 29.6% to \$1.3 billion for 2003, as compared to \$1.0 billion for 2002 and 2001. These amounts represent an effective tax rate of 36.1% for 2003, 36.6% for 2002, and 37.6% for 2001. The reduction in the effective tax rate was primarily driven by favorable resolutions of tax examination issues at the federal and state levels and an increase in favorable tax adjustments.

Note 21: Income Taxes to the audited consolidated financial statements provides further detail regarding the Corporation's income taxes.

### LOAN QUALITY

The Corporation's loan quality, at any time, reflects, among other factors, the credit quality of the Corporation's credit card and other consumer loans, the success of the Corporation's collection efforts, the composition of credit card and other consumer loans included in the Corporation's loan receivables, the seasoning of the

Leicester plc credit card portfolio acquisitions, which were acquired in the second and third quarters of 2002, respectively.

Prior to 2003, the Corporation amortized the value of its foreign PCCRs over a period of 10 years. Effective January 1, 2003, the Corporation extended the amortization period for its foreign PCCRs to 15 years to more appropriately match the amortization period with the foreign PCCRs' estimated useful lives. The change in estimate did not have a material impact on the Corporation's financial condition or results of operations for the year ended December 31, 2003.

Corporation's loans, and general economic conditions. As new loans season, the delinquency and charge-off rates on these loans normally rise and then stabilize. The Corporation's financial results are sensitive to changes in delinquencies and net credit losses related to the Corporation's loans. During an economic downturn, delinquencies and net credit losses are more likely to increase. The

Corporation considers the levels of delinquent loans, renegotiated loans, re-aged loans, and other factors in determining the appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees. The following loan quality discussion includes credit risk, delinquencies, renegotiated loan programs, which include nonaccrual loans and reduced-rate loans, re-aged loans, net credit losses, the reserve and provision for possible credit losses, and the estimate of uncollectible accrued interest and fees (see “Critical Accounting Policies—Reserve For Possible Credit Losses” and “Revenue Recognition” for further discussion).

## CREDIT RISK

Credit risk is one of the Corporation’s most significant risks. It primarily represents the risk to earnings and capital arising from the failure of Customers to repay loans according to their terms. Credit risk is particularly important for the Corporation because its primary products are unsecured consumer credit cards and other unsecured consumer loans that generally have higher credit risks than secured consumer lending products, such as mortgages and automobile loans, and commercial lending products. In addition, the Corporation generates significant revenues from fees, such as late and overlimit fees, on accounts that exhibit higher credit risk.

Management attempts to manage credit risk through a variety of techniques, including prudent underwriting of applications for credit and review of credit risk for portfolios of loans that are acquired, setting and managing appropriate credit line amounts, monitoring account usage and, where appropriate, blocking use of accounts, and working with Customers with past-due balances to help them manage their accounts and to collect past-due amounts. These efforts are described under “Business” in the Corporation’s 2003 Annual Report on Form 10-K.

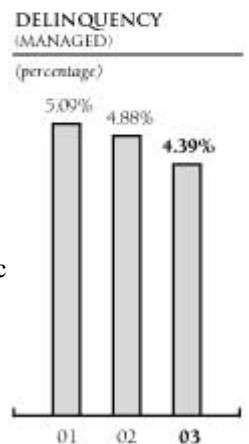
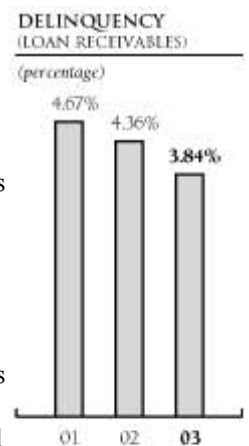
The level of the Corporation’s credit risk is affected by the Corporation’s marketing and credit underwriting strategies. The Corporation markets its products through endorsements from associations, financial institutions, and other organizations. Through this endorsed marketing strategy and the Corporation’s underwriting of loan applications, the Corporation attempts to attract quality loan applicants and offer optimal, initial credit lines on accounts and periodic credit-line increases, resulting in higher usage and average account balances. When Customers experience financial difficulties however, the higher usage and average account balances will result in higher average balances for accounts that charge off. The Corporation attempts to control this risk through blocking use of accounts or reducing credit lines. The Corporation may also set or increase the interest rate charged on accounts to compensate for increased credit risk. For example, as discussed under “Loan Quality—Delinquencies” below, the

Corporation generally charges higher interest rates on domestic other consumer loan receivables because these receivables typically have a higher delinquency and charge-off rate than the Corporation’s domestic credit card loan receivables. The Corporation also assesses certain fees, such as late and overlimit fees, to encourage Customers to pay and manage their accounts responsibly and to compensate the Corporation for the risks associated with certain activity on the Customers’ accounts.

Credit quality and the impact of credit losses on the Corporation’s financial condition and results of operations are discussed below.

## DELINQUENCIES

The entire balance of an account is contractually delinquent if the minimum payment is not received by the specified date on the Customer’s billing statement. Interest and fees continue to accrue on the Corporation’s delinquent loans. Delinquency is reported on accruing loans that are 30 or more days past due. Delinquency as a percentage of the Corporation’s loan receivables was 3.84% at December 31, 2003, as compared to 4.36% and 4.67% at December 31, 2002, and 2001, respectively. The Corporation’s delinquency as a percentage of managed loans was 4.39% at December 31, 2003, as compared to 4.88% and 5.09% at December 31, 2002, and 2001, respectively. The reduction in the Corporation’s delinquency rates was due to growth in foreign loan receivables, including growth as a result of the strengthening of foreign currencies against the U.S. dollar, and increased collection efforts by the Corporation during 2003. It also reflects a decrease in other consumer loan receivables as a percentage of total loan receivables. The decrease in domestic other consumer loan receivables during 2003 was due to a decrease in the Corporation’s sales finance loan receivables, as the Corporation placed less emphasis on this product in 2003.





**TABLE 13: DELINQUENT LOANS (a) (b) (c) (dollars in thousands)**

December 31,	2003		2002		2001		2000		1999	
<b>Loan Receivables</b>										
Loan receivables outstanding	\$ 33,624,077		\$ 28,726,508		\$ 24,633,564		\$ 19,954,837		\$ 17,663,709	
Loan receivables delinquent:										
30 to 59 days	\$ 429,266	1.28%	\$ 439,911	1.53%	\$ 433,212	1.76%	\$ 304,928	1.53%	\$ 246,160	1.39%
60 to 89 days	277,928	.83	273,103	.95	242,784	.99	169,462	.85	140,909	.80
90 or more days (d)	582,605	1.73	538,589	1.88	474,905	1.92	329,290	1.65	321,682	1.82
Total	\$ 1,289,799	3.84%	\$ 1,251,603	4.36%	\$ 1,150,901	4.67%	\$ 803,680	4.03%	\$ 708,751	4.01%
<b>Loan receivables delinquent by geographic area:</b>										
Domestic:										
Credit card	\$ 775,420	4.27%	\$ 722,988	4.64%	\$ 676,876	4.71%	\$ 562,716	4.33%	\$ 551,013	4.25%
Other consumer	339,199	5.45	391,568	6.19	366,695	5.99	173,204	4.53	115,274	5.08
Total domestic	1,114,619	4.57	1,114,556	5.09	1,043,571	5.09	735,920	4.37	666,287	4.38
Foreign	175,180	1.90	137,047	2.01	107,330	2.60	67,760	2.17	42,464	1.74
Total	\$ 1,289,799	3.84	\$ 1,251,603	4.36	\$ 1,150,901	4.67	\$ 803,680	4.03	\$ 708,751	4.01
<b>Securitized Loans</b>										
Securitized loans outstanding	\$ 84,869,483		\$ 78,531,334		\$ 72,862,487		\$ 68,835,884		\$ 54,591,804	
Securitized loans delinquent:										
30 to 59 days	\$ 1,235,230	1.46%	\$ 1,374,779	1.75%	\$ 1,383,681	1.90%	\$ 1,187,368	1.72%	\$ 863,967	1.58%
60 to 89 days	818,356	.96	844,811	1.08	797,077	1.09	677,300	.98	507,363	.93
90 or more days (d)	1,860,265	2.19	1,758,318	2.24	1,630,802	2.24	1,318,190	1.92	1,136,815	2.08
Total	\$ 3,913,851	4.61%	\$ 3,977,908	5.07%	\$ 3,811,560	5.23%	\$ 3,182,858	4.62%	\$ 2,508,145	4.59%
<b>Securitized loans delinquent by geographic area:</b>										
Domestic:										
Credit card	\$ 3,244,512	4.80%	\$ 3,248,814	5.09%	\$ 3,102,237	5.13%	\$ 2,624,415	4.57%	\$ 2,106,961	4.60%
Other consumer	351,655	6.20	401,469	7.07	444,464	7.79	372,845	6.55	249,623	6.26
Total domestic	3,596,167	4.91	3,650,283	5.25	3,546,701	5.36	2,997,260	4.75	2,356,584	4.73
Foreign	317,684	2.74	327,625	3.65	264,859	3.98	185,598	3.25	151,561	3.19
Total	\$ 3,913,851	4.61	\$ 3,977,908	5.07	\$ 3,811,560	5.23	\$ 3,182,858	4.62	\$ 2,508,145	4.59

## Managed Loans

Managed loans outstanding	\$ 118,493,560		\$ 107,257,842		\$ 97,496,051		\$ 88,790,721		\$ 72,255,513	
Managed loans delinquent:										
30 to 59 days	\$ 1,664,496	1.40%	\$ 1,814,690	1.69%	\$ 1,816,893	1.86%	\$ 1,492,296	1.68%	\$ 1,110,127	1.54%
60 to 89 days	1,096,284	.93	1,117,914	1.04	1,039,861	1.07	846,762	.95	648,272	.90
90 or more days (d)	2,442,870	2.06	2,296,907	2.15	2,105,707	2.16	1,647,480	1.86	1,458,497	2.01
Total	\$ 5,203,650	4.39%	\$ 5,229,511	4.88%	\$ 4,962,461	5.09%	\$ 3,986,538	4.49%	\$ 3,216,896	4.45%
Managed loans delinquent by geographic area:										
Domestic:										
Credit card	\$ 4,019,932	4.69%	\$ 3,971,802	5.00%	\$ 3,779,113	5.05%	\$ 3,187,131	4.52%	\$ 2,657,974	4.52%
Other consumer	690,854	5.81	793,037	6.61	811,159	6.86	546,049	5.74	364,897	5.83
Total domestic	4,710,786	4.82	4,764,839	5.21	4,590,272	5.29	3,733,180	4.67	3,022,871	4.65
Foreign	492,864	2.37	464,672	2.94	372,189	3.45	253,358	2.87	194,025	2.70
Total	\$ 5,203,650	4.39	\$ 5,229,511	4.88	\$ 4,962,461	5.09	\$ 3,986,538	4.49	\$ 3,216,896	4.45

(a) Amounts exclude nonaccrual loans, which are presented in Table 15.

(b) The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees.

(c) In September 2002, the Corporation changed the estimated value of accrued interest and fees. Excluding the change in the estimated value of accrued interest and fees in 2002, delinquency on loan receivables and managed loans would have been 4.66% and 5.19%, respectively, at December 31, 2002.

(d) See Table 14 for further detail on accruing loans past due 90 days or more.

Table 13 presents a reconciliation of the Corporation's loan receivables delinquency ratio to the managed loans delinquency ratio.

Loan delinquency on domestic credit card loan receivables was 4.27% at December 31, 2003, as compared to 4.64% and 4.71% at December 31, 2002, and 2001, respectively. Loan delinquency on domestic other consumer loan receivables was 5.45% at December 31, 2003, as compared to 6.19% and 5.99% at December 31, 2002, and 2001, respectively. Loan delinquency on foreign loan receivables was 1.90% at December 31, 2003, as

compared to 2.01% and 2.60% at December 31, 2002, and 2001, respectively. The delinquency rate on the Corporation's foreign loan receivables is typically lower than the delinquency rate on the Corporation's domestic credit card loan receivables. The Corporation's domestic other consumer loan receivables typically have a higher delinquency and charge-off rate than the Corporation's domestic credit card loan receivables, and as a result, the Corporation generally charges higher interest rates on domestic other consumer loan receivables.

**TABLE 14: ACCRUING LOANS PAST DUE 90 DAYS OR MORE (a) (b) (c)** (dollars in thousands)

December 31,	2003	2002	2001	2000	1999
<b>Loan Receivables</b>					
Domestic:					
Credit card	\$ 365,668	\$ 310,413	\$ 289,907	\$ 236,010	\$ 250,534
Other consumer	164,315	179,378	150,189	69,932	54,636
Total domestic	529,983	489,791	440,096	305,942	305,170
Foreign	52,622	48,798	34,809	23,348	16,512
Total	\$ 582,605	\$ 538,589	\$ 474,905	\$ 329,290	\$ 321,682
<b>Securitized Loans</b>					
Domestic:					
Credit card	\$ 1,563,719	\$ 1,429,522	\$ 1,331,890	\$ 1,088,991	\$ 951,970
Other consumer	174,314	186,256	184,539	156,326	114,694
Total domestic	1,738,033	1,615,778	1,516,429	1,245,317	1,066,664
Foreign	122,232	142,540	114,373	72,873	70,151
Total	\$ 1,860,265	\$ 1,758,318	\$ 1,630,802	\$ 1,318,190	\$ 1,136,815
<b>Managed Loans</b>					
Domestic:					
Credit card	\$ 1,929,387	\$ 1,739,935	\$ 1,621,797	\$ 1,325,001	\$ 1,202,504
Other consumer	338,629	365,634	334,728	226,258	169,330
Total domestic	2,268,016	2,105,569	1,956,525	1,551,259	1,371,834
Foreign	174,854	191,338	149,182	96,221	86,663
Total	\$ 2,442,870	\$ 2,296,907	\$ 2,105,707	\$ 1,647,480	\$ 1,458,497

(a) Amounts exclude nonaccrual loans, which are presented in Table 15.

(b) This Table provides further detail on 90 days or more delinquent loans presented in Table 13.

(c) The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees.

Table 14 presents accruing loans past due 90 days or more.

### RENEGOTIATED LOAN PROGRAMS

The Corporation may modify the terms of its credit card and other consumer loan agreements with Customers who have experienced financial difficulties by offering them renegotiated loan programs, which include either placing them on nonaccrual status or reducing their interest rate. The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and estimate of uncollectible accrued interest and fees.

**TABLE 15: NONACCRUAL LOANS (a) (b)** (dollars in thousands)

December 31,	2003	2002	2001	2000	1999
<b>Loan Receivables</b>					
Domestic:					
Credit card					
	\$ 13,114	\$ 48,318	\$ 27,570	\$ 21,488	\$ 13,793
Other consumer	1,053	2,481	2,043	2,628	905
Total domestic	14,167	50,799	29,613	24,116	14,698

Foreign	<u>85,284</u>	<u>6,733</u>	<u>6,159</u>	<u>17,046</u>	<u>9,214</u>
Total	<u>\$ 99,451</u>	<u>\$ 57,532</u>	<u>\$ 35,772</u>	<u>\$ 41,162</u>	<u>\$ 23,912</u>
Nonaccrual loan receivables as a percentage of ending loan receivables	<u>.30</u> %	<u>.20</u> %	<u>.15</u> %	<u>.21</u> %	<u>.14</u> %
<b>Securitized Loans</b>					
Domestic:					
Credit card					
	<u>\$ 47,772</u>	<u>\$ 215,605</u>	<u>\$ 120,494</u>	<u>\$ 99,938</u>	<u>\$ 62,126</u>
Other consumer	<u>1,050</u>	<u>2,348</u>	<u>2,031</u>	<u>4,571</u>	<u>6,167</u>
Total domestic	<u>48,822</u>	<u>217,953</u>	<u>122,525</u>	<u>104,509</u>	<u>68,293</u>
Foreign					
	<u>129,140</u>	<u>11,798</u>	<u>15,528</u>	<u>44,882</u>	<u>24,491</u>
Total	<u>\$ 177,962</u>	<u>\$ 229,751</u>	<u>\$ 138,053</u>	<u>\$ 149,391</u>	<u>\$ 92,784</u>
Nonaccrual securitized loans as a percentage of ending securitized loans	<u>.21</u> %	<u>.29</u> %	<u>.19</u> %	<u>.22</u> %	<u>.17</u> %
<b>Managed Loans</b>					
Domestic:					
Credit card					
	<u>\$ 60,886</u>	<u>\$ 263,923</u>	<u>\$ 148,064</u>	<u>\$ 121,426</u>	<u>\$ 75,919</u>
Other consumer	<u>2,103</u>	<u>4,829</u>	<u>4,074</u>	<u>7,199</u>	<u>7,072</u>
Total domestic	<u>62,989</u>	<u>268,752</u>	<u>152,138</u>	<u>128,625</u>	<u>82,991</u>
Foreign					
	<u>214,424</u>	<u>18,531</u>	<u>21,687</u>	<u>61,928</u>	<u>33,705</u>
Total	<u>\$ 277,413</u>	<u>\$ 287,283</u>	<u>\$ 173,825</u>	<u>\$ 190,553</u>	<u>\$ 116,696</u>
Nonaccrual managed loans as a percentage of ending managed loans	<u>.23</u> %	<u>.27</u> %	<u>.18</u> %	<u>.21</u> %	<u>.16</u> %

- Although nonaccrual loans are charged off consistent with Corporation's charge-off policy as described in "Loan Quality-Net Credit (a) Losses," nonaccrual loans are not included in the delinquent loans presented in Table 13 and Table 14 and the reduced-rate loans presented in Table 16.
- (b) The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees.

**TABLE 16: REDUCED-RATE LOANS (a) (b) (dollars in thousands)**

December 31,	2003	2002	2001	2000	1999
<b>Loan Receivables</b>					
Domestic:					
Credit card	\$ 410,156	\$ 429,122	\$ 356,536	\$ 316,354	\$ 297,562
Other consumer	131,048	163,521	145,305	79,378	25,127
Total domestic	541,204	592,643	501,841	395,732	322,689
Foreign	31,446	64,951	42,572	16,529	6,236
Total	\$ 572,650	\$ 657,594	\$ 544,413	\$ 412,261	\$ 328,925
Reduced-rate loan receivables as a percentage of ending loan receivables	1.70 %	2.29 %	2.21 %	2.07 %	1.86 %
<b>Securitized Loans</b>					
Domestic:					
Credit card	\$ 1,626,721	\$ 1,928,406	\$ 1,601,882	\$ 1,381,046	\$ 1,167,012
Other consumer	139,476	158,254	144,439	122,797	186,795
Total domestic	1,766,197	2,086,660	1,746,321	1,503,843	1,353,807
Foreign	66,009	80,172	69,658	32,113	13,757
Total	\$ 1,832,206	\$ 2,166,832	\$ 1,815,979	\$ 1,535,956	\$ 1,367,564
Reduced-rate securitized loans as a percentage of ending securitized loans	2.16 %	2.76 %	2.49 %	2.23 %	2.51 %
<b>Managed Loans</b>					
Domestic:					
Credit card	\$ 2,036,877	\$ 2,357,528	\$ 1,958,418	\$ 1,697,400	\$ 1,464,574
Other consumer	270,524	321,775	289,744	202,175	211,922
Total domestic	2,307,401	2,679,303	2,248,162	1,899,575	1,676,496
Foreign	97,455	145,123	112,230	48,642	19,993
Total	\$ 2,404,856	\$ 2,824,426	\$ 2,360,392	\$ 1,948,217	\$ 1,696,489
Reduced-rate managed loans as a percentage of ending managed loans	2.03 %	2.63 %	2.42 %	2.19 %	2.35 %

(a) Reduced-rate loans presented in this Table exclude accruing loans past due 90 days or more and nonaccrual loans, which are presented in Table 14 and Table 15, respectively.

(b) The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees.

## NONACCRUAL LOANS

On a case-by-case basis, management determines whether an account should be placed on nonaccrual status. When loans are classified as nonaccrual, the accrual of interest ceases. In future periods, when a payment is received, it is recorded as a reduction of principal.

Nonaccrual loan receivables as a percentage of the Corporation's ending loan receivables were ..30% at December 31, 2003, as

Table 15 presents the Corporation's nonaccrual loan receivables and includes a reconciliation to the nonaccrual managed loans.

## REDUCED-RATE LOANS

On a case-by-case basis, management determines whether an account should be placed on reduced-rate status. Reduced-rate loans are loans for which the interest rate was reduced because of the inability of the Customer to comply with the original terms and conditions of the

compared to .20% and .15% at December 31, 2002, and 2001, respectively. Nonaccrual managed loans as a percentage of ending managed loans were .23% at December 31, 2003, as compared to .27% and .18% at December 31, 2002, and 2001, respectively (see Table 15 for a geographic breakdown of nonaccrual loans). The decreases in domestic nonaccrual loans are primarily the result of a reduction in the number of renegotiated loan programs offered to domestic Customers. The increases in foreign nonaccrual loans are primarily the result of MBNA Europe, in September 2003, reclassifying certain collection accounts to nonaccrual loans, as well as MBNA Europe conforming its practices with the Corporation's domestic practices as to when loans are placed on nonaccrual status, combined with the strengthening of foreign currencies against the U.S. dollar. Prior year amounts have not been reclassified.

agreement. Income is accrued at the reduced rate as long as the Customer complies with the revised terms and conditions of the agreement.

Reduced-rate loan receivables as a percentage of the Corporation's ending loan receivables were 1.70% at December 31, 2003, as compared to 2.29% and 2.21% at December 31, 2002, and 2001, respectively. Reduced-rate managed loans as a percentage of ending managed loans were 2.03% at December 31, 2003, as compared to 2.63% and 2.42% at December 31, 2002, and 2001, respectively. The decreases were primarily the result of a reduction in the number of renegotiated loan programs offered to Customers.

Table 16 presents the Corporation's reduced-rate loan receivables and includes a reconciliation to the reduced-rate managed loans.

**TABLE 17: RE-AGED AMOUNTS (a)** *(dollars in thousands)*

December 31,	2003	2002	2001
<b>Loan Receivables Re-aged Amounts</b>			
Domestic:			
Credit card	\$ 374,410	\$ 732,916	\$ 735,824
Other consumer	235,635	350,372	321,049
Total domestic	610,045	1,083,288	1,056,873
Foreign	104,776	71,500	54,721
Total loan receivables re-aged amounts	\$ 714,821	\$ 1,154,788	\$ 1,111,594
<b>Securitized Loan Re-aged Amounts</b>			
Domestic:			
Credit card	\$ 1,757,696	\$ 3,591,995	\$ 4,041,381
Other consumer	230,997	332,735	389,450
Total domestic	1,988,693	3,924,730	4,430,831
Foreign	148,013	105,863	90,450
Total securitized loans re-aged amounts	\$ 2,136,706	\$ 4,030,593	\$ 4,521,281
<b>Managed Loan Re-aged Amounts</b>			
Domestic:			
Credit card	\$ 2,132,106	\$ 4,324,911	\$ 4,777,205
Other consumer	466,632	683,107	710,499
Total domestic	2,598,738	5,008,018	5,487,704
Foreign	252,789	177,363	145,171
Total managed loans re-aged amounts.	\$ 2,851,527	\$ 5,185,381	\$ 5,632,875

2001, respectively. Of those accounts that were re-aged during the three months ended December 31, 2002, approximately 22.0% returned to delinquency status and approximately 21.8% charged off by December 31, 2003. Of those accounts that were re-aged during the three months ended December 31, 2001, approximately 19.5% returned to delinquency status and approximately 20.4% charged off by December 31, 2002.

Table 17 presents the Corporation's loan receivables re-aged amounts and includes a reconciliation to the managed re-aged amounts.

The decreases for 2003 in loan receivables, securitized loan, and managed loan re-aged amounts were the result of changes in re-age practices implemented by the Corporation during 2002 and the first quarter of 2003, which reduced the number of accounts that qualified for re-age. Re-aged amounts for 2002 were also impacted by the changes in re-age practices.

#### NET CREDIT LOSSES

The Corporation's net credit losses include the principal amount of losses charged off less current period recoveries and exclude uncollectible accrued interest and fees and fraud losses. Uncollectible accrued interest and fees are recognized by the Corporation through a

- (a) Re-aged loans that returned to delinquency status are included in the delinquency amounts presented in Table 13 and Table 14.

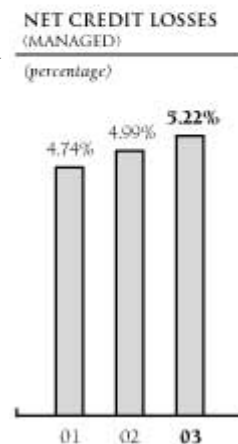
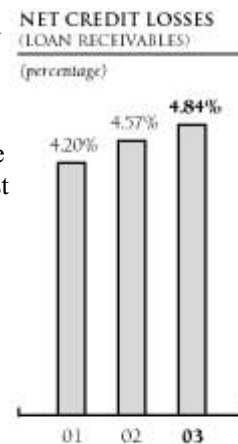
## RE-AGED LOANS

A Customer's account may be re-aged to remove existing delinquency. Generally, the intent of a re-age is to assist Customers who have recently overcome temporary financial difficulties, and have demonstrated both the ability and willingness to resume regular payments, but may be unable to pay the entire past due amount. To qualify for re-aging, the account must have been open for at least one year and cannot have been re-aged during the preceding 365 days. An account may not be re-aged more than two times in a five-year period. To qualify for re-aging, the Customer must also have made three regular minimum monthly payments within the last 90 days. In addition, the Corporation may re-age the account of a Customer who is experiencing long-term financial difficulties and apply modified, concessionary terms and conditions to the account. Such additional re-ages are limited to one in a five year period and must meet the qualifications for re-ages described above, except that the Customer's three consecutive minimum monthly payments may be based on the modified terms and conditions applied to the account. All re-age strategies are approved by the Corporation's senior management and the Corporation's Loan Review Department.

Re-ages can have the effect of delaying charge-offs. There were \$714.8 million of loan receivables re-aged during 2003, as compared to \$1.2 billion and \$1.1 billion during 2002 and 2001, respectively. Managed loans re-aged during 2003 were \$2.9 billion, as compared to \$5.2 billion and \$5.6 billion during 2002 and

reduction of the amount of interest income and fee income recognized in the current period that the Corporation does not expect to collect in subsequent periods. The respective income amounts, loan receivables, and accrued income receivable are reduced for uncollectible interest and fees. The Corporation records current period recoveries on loans previously charged off in the reserve for possible credit losses. If the Corporation sells charged-off loans, it records the proceeds received from these sales as recoveries. Fraud losses are recognized through a charge to other expense.

The Corporation works with Customers continually at each stage of delinquency. The Corporation's policy is to charge off open-end delinquent retail loans by the end of the month in which the account becomes 180 days contractually past due and closed-end delinquent retail loans by the end of the month in which they become 120 days contractually past due. Delinquent bankrupt accounts are charged off the end of the second calendar month following receipt of notification of filing from the





**TABLE 18: NET CREDIT LOSS RATIO (dollars in thousands)**

	2003			2002			2001		
	Net Credit Losses	Average Balance	Net Credit Loss Ratio	Net Credit Losses	Average Balance	Net Credit Loss Ratio	Net Credit Losses	Average Balance	Net Credit Loss Ratio
<b>Loan Receivables</b>									
Domestic:									
Credit card	\$ 682,282	\$ 14,489,754	4.71 %	\$ 597,876	\$ 13,581,330	4.40 %	\$ 502,898	\$ 11,546,396	4.36 %
Other consumer	476,770	6,282,458	7.59	422,587	6,333,295	6.67	253,891	4,993,691	5.08
Total domestic loan receivables	1,159,052	20,772,212	5.58	1,020,463	19,914,625	5.12	756,789	16,540,087	4.58
Foreign	204,644	7,411,606	2.76	135,749	5,400,575	2.51	98,225	3,799,301	2.59
Total loan receivables	\$ 1,363,696	\$ 28,183,818	4.84	\$ 1,156,212	\$ 25,315,200	4.57	\$ 855,014	\$ 20,339,388	4.20
<b>Securitized Loans</b>									
Domestic:									
Credit card	\$ 3,532,128	\$ 65,914,563	5.36	\$ 3,113,346	\$ 61,623,821	5.05	\$ 2,823,610	\$ 59,185,084	4.77
Other consumer	504,555	5,682,404	8.88	474,122	5,703,851	8.31	439,627	5,703,402	7.71
Total domestic securitized loans	4,036,683	71,596,967	5.64	3,587,468	67,327,672	5.33	3,263,237	64,888,486	5.03
Foreign	338,786	10,094,189	3.36	247,915	7,391,059	3.35	188,777	5,672,114	3.33
Total securitized loans	\$ 4,375,469	\$ 81,691,156	5.36	\$ 3,835,383	\$ 74,718,731	5.13	\$ 3,452,014	\$ 70,560,600	4.89
<b>Managed Loans</b>									
Domestic:									
Credit card	\$ 4,214,410	\$ 80,404,317	5.24	\$ 3,711,222	\$ 75,205,151	4.93	\$ 3,326,508	\$ 70,731,480	4.70
Other consumer	981,325	11,964,862	8.20	896,709	12,037,146	7.45	693,518	10,697,093	6.48
Total domestic managed loans	5,195,735	92,369,179	5.62	4,607,931	87,242,297	5.28	4,020,026	81,428,573	4.94
Foreign	543,430	17,505,795	3.10	383,664	12,791,634	3.00	287,002	9,471,415	3.03
Total managed loans	\$ 5,739,165	\$ 109,874,974	5.22	\$ 4,991,595	\$ 100,033,931	4.99	\$ 4,307,028	\$ 90,899,988	4.74

applicable court, but not later than the applicable 180-day or 120-day timeframes described above. Accounts of deceased Customers are charged off when the loss is determined, but not later than the applicable 180-day or 120-day timeframes described above. Accounts failing to make a payment within charge-off policy timeframes are written off. Managers may on an exception basis defer charge off of an account for another month, pending continued payment activity or other special circumstances. Senior manager approval is required on all such exceptions to the above charge-off policies.

Loan receivables net credit losses increased \$207.5 million or 17.9% to \$1.4 billion for 2003, as compared to an increase of \$301.2 million or 35.2% to \$1.2 billion for 2002, from \$855.0 million for 2001. Net credit losses as a percentage of average loan receivables were 4.84% for 2003, as compared to 4.57% and 4.20% for 2002, and 2001, respectively. The Corporation's managed net credit losses as a percentage of average managed loans for 2003, were 5.22%, as compared to 4.99% and 4.74% for 2002, and 2001, respectively. The increase in net credit losses for 2003, reflects a weak economy, the continuing seasoning of the Corporation's loans, and an increase in average loan receivables.

Domestic credit card net credit losses as a percentage of average domestic credit card loan receivables were 4.71% for 2003, as compared to 4.40% and 4.36% for 2002, and 2001, respectively. Domestic other consumer net credit losses as a percentage of average domestic other consumer loan receivables were 7.59% for

domestic other consumer net credit losses reflect the higher credit risk associated with these products. Foreign net credit losses as a percentage of average foreign loan receivables were 2.76% for 2003, as compared to 2.51% and 2.59% for 2002, and 2001, respectively. The lower level of net credit losses on the Corporation's foreign loan receivables, as compared to domestic loan receivables, primarily reflects the growth in the Corporation's foreign loan receivables and the seasoning of those accounts. A higher percentage of newer, less seasoned accounts results in a lower charge-off ratio compared to a more seasoned portfolio. Managed domestic credit card net credit losses as a percentage of average managed domestic credit card loans were 5.24% for 2003, as compared to 4.93% and 4.70% for 2002, and 2001, respectively. Managed domestic other consumer net credit losses as a percentage of average managed domestic other consumer loans were 8.20% for 2003, as compared to 7.45% and 6.48% for 2002, and 2001, respectively. Managed foreign net credit losses as a percentage of average managed foreign loans were 3.10% for 2003, as compared to 3.00% and 3.03% for 2002, and 2001, respectively. The net credit loss ratio is calculated by dividing annualized net credit losses, which exclude uncollectible accrued interest and fees and fraud losses, for the period by average loan receivables, which include the estimated collectible billed interest and fees for the corresponding period.

Table 18 presents the Corporation's loan receivables net credit loss ratio and includes a reconciliation to the managed net credit loss ratio.

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2003, as compared to 6.67% and 5.08% for 2002, and 2001, respectively. In addition to the weak general economic conditions,

**TABLE 19: RESERVE FOR POSSIBLE CREDIT LOSSES** (dollars in thousands)

December 31,	2003	2002	2001	2000	1999
Reserve for possible credit losses, beginning of year	\$ 1,111,299	\$ 833,423	\$ 527,573	\$ 516,261	\$ 296,474
Reserves acquired	61,116	84,878	20,748	64,726	109,757
Provision for possible credit losses:					
Domestic	1,189,344	1,153,486	1,028,047	477,630	590,558
Foreign	203,357	186,671	112,568	69,679	46,056
Total provision for possible credit losses	1,392,701	1,340,157	1,140,615	547,309	636,614
Foreign currency translation	14,896	9,053	(499 )	(1,081 )	(96 )
Credit losses:					
Domestic:					
Credit card	(731,646 )	(635,408 )	(541,072 )	(435,134 )	(422,504 )
Other consumer	(509,965 )	(447,135 )	(265,829 )	(138,892 )	(104,268 )
Total domestic credit losses	(1,241,611 )	(1,082,543 )	(806,901 )	(574,026 )	(526,772 )
Foreign	(238,175 )	(157,025 )	(117,572 )	(72,831 )	(41,157 )
Total credit losses	(1,479,786 )	(1,239,568 )	(924,473 )	(646,857 )	(567,929 )
Recoveries:					
Domestic:					
Credit card	49,364	37,532	38,174	29,367	27,356
Other consumer	33,195	24,548	11,938	8,811	7,611
Total domestic recoveries	82,559	62,080	50,112	38,178	34,967
Foreign	33,531	21,276	19,347	9,037	6,474
Total recoveries	116,090	83,356	69,459	47,215	41,441
Net credit losses	(1,363,696 )	(1,156,212 )	(855,014 )	(599,642 )	(526,488 )
Reserve for possible credit losses, end of year	\$ 1,216,316	\$ 1,111,299	\$ 833,423	\$ 527,573	\$ 516,261
Net credit losses as a % of average loan receivables	4.84 %	4.57 %	4.20 %	3.38 %	3.65 %
Reserve for possible credit losses as a % of ending loan receivables	3.62	3.87	3.38	2.64	2.92
Ending loan receivables	\$ 33,624,077	\$ 28,726,508	\$ 24,633,564	\$ 19,954,837	\$ 17,663,709
Average loan receivables	28,183,818	25,315,200	20,339,388	17,718,148	14,422,495

### RESERVE AND PROVISION FOR POSSIBLE CREDIT LOSSES

The Corporation maintains the reserve for possible credit losses at an amount sufficient to absorb losses inherent in the Corporation's loan principal receivables at the reporting date based on a projection of probable net credit losses. To project probable net credit losses, the Corporation regularly performs a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through the various delinquency stages and ultimately charge off. On a quarterly basis, the Corporation reviews and adjusts, as appropriate, these estimates. The Corporation's projection of probable net credit losses considers the impact of economic conditions on the borrowers' ability to repay, past collection experience, the risk characteristics and composition of the portfolio,

The Corporation's reserve for possible credit losses increased \$105.0 million or 9.4% to \$1.2 billion at December 31, 2003, as compared to an increase of \$277.9 million or 33.3% to \$1.1 billion at December 31, 2002, from \$833.4 million at December 31, 2001. The provision for possible credit losses for 2003, increased \$52.5 million or 3.9% to \$1.4 billion, as compared to an increase of \$199.5 million or 17.5% to \$1.3 billion in 2002 from \$1.1 billion in 2001. The increases in the reserve for possible credit losses and the related provision for possible credit losses in 2003 and 2002 primarily reflects a weak economy, as demonstrated by the increases in the Corporation's net credit losses, and increases in loan receivables.

While the Corporation's reserve for possible credit losses is a general reserve applicable to the Corporation's loan receivables, the

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and other factors. The Corporation then reserves for the projected probable net credit losses based on its projection of these amounts. The Corporation establishes appropriate levels of the reserve for possible credit losses for its products, including domestic credit card, domestic other consumer and foreign loans, based on their risk characteristics. A provision is charged against earnings to maintain the reserve for possible credit losses at an appropriate level. The Corporation records acquired reserves for current period loan acquisitions.

The reserve for possible credit losses is a general allowance applicable to the Corporation's loan receivables and does not include an allocation for credit risk related to securitized loans. Net credit losses on securitized loans are absorbed directly by the related trusts under their respective contractual agreements and do not affect the reserve for possible credit losses.

reserve for possible credit losses is allocated to the Corporation's domestic and foreign loan receivables for internal purposes based on the type of loan product and its underlying risk of loss. The percentage of the reserve allocated to the domestic other consumer loan receivables decreased from 41.6% at December 31, 2002, to 37.5% at December 31, 2003, primarily due to a decrease in the Corporation's sales finance loan receivables, as the Corporation placed less emphasis on this product in 2003.

The percentage of the reserve allocated to the domestic other consumer loans increased from 24.3% at December 31, 2001, to 41.6% at December 31, 2002. The percentage of the reserve allocated to foreign loans increased from 6.2% at December 31, 2001, to 11.7% at December 31, 2002, because foreign loans increased as

**TABLE 20: ALLOCATION OF THE RESERVE FOR POSSIBLE CREDIT LOSSES** (dollars in thousands)

December 31,	2003		2002		2001		2000		1999	
<b>Domestic:</b>										
Credit card	\$ 614,974	50.5 %	\$ 518,889	46.7 %	\$ 578,995	69.5 %	\$ 396,806	75.2 %	\$ 428,847	83.1 %
Other consumer	455,699	37.5	462,756	41.6	203,040	24.3	102,350	19.4	63,801	12.3
Domestic reserve for possible credit losses	1,070,673	88.0	981,645	88.3	782,035	93.8	499,156	94.6	492,648	95.4
Foreign	145,643	12.0	129,654	11.7	51,388	6.2	28,417	5.4	23,613	4.6
Reserve for possible credit losses, end of year	\$ 1,216,316	100.0%	\$ 1,111,299	100.0%	\$ 833,423	100.0%	\$ 527,573	100.0%	\$ 516,261	100.0%

a percentage of total loan receivables and because the Corporation anticipated higher probable net credit losses on its foreign loans due to the continued seasoning of the portfolio.

Table 19 presents activity for the Corporation's reserve for possible credit losses.

During the fourth quarter of 2002, the Corporation increased its reserve for domestic other consumer loans by \$109.5 million because these products exhibited higher credit risk.

The Corporation's projections of probable net credit losses are inherently uncertain, and as a result, the Corporation cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the Corporation's loan receivables, bankruptcy laws or regulatory policies, and other factors could impact the Corporation's actual and projected net credit losses and the related reserve for possible credit losses.

The Corporation recorded acquired reserves for possible credit losses for loan portfolio acquisitions of \$61.1 million, \$84.9 million, and \$20.7 million for 2003, 2002, and 2001, respectively.

Table 20 presents the allocation of the reserve for possible credit losses.

#### ESTIMATE OF UNCOLLECTIBLE ACCRUED INTEREST AND FEES

The Corporation adjusts the amount of interest and fee income on loan receivables recognized in the current period for its estimate of interest and fee income that it does not expect to collect in subsequent periods through adjustments to the respective income statement amounts, loan receivables, and accrued income receivable. The estimate of uncollectible accrued interest and fees is based on a migration analysis of delinquent and current loan receivables that will progress through the various delinquency stages and will ultimately charge off. The Corporation also adjusts

The difference between the amounts of interest and fees the Corporation was contractually entitled to and the amounts recognized as revenue was \$1.2 billion, \$1.4 billion and \$858.3 million during the years ended December 31, 2003, 2002, and 2001, respectively. Excluding the change in the estimated value of accrued interest and fees in 2002, the difference between the amounts of interest and fees the Corporation was contractually entitled to and the amounts recognized as revenue was \$1.0 billion for 2002. The difference between the amounts of interest and fees the Corporation was contractually entitled to and the amounts recognized as revenue for the year ended December 31, 2003, excluding the change in the estimated value of accrued interest and fees in 2002, increased \$141.1 million or 13.5%, primarily as a result of an increase in ending managed loans. The increase of \$185.6 million or 21.6% for the year ended December 31, 2002, excluding the change in the estimated value of accrued interest and fees in 2002, was primarily the result of an increase in managed loans.

Table 21 presents the domestic and foreign amounts for the difference between the amounts of interest and fees the Corporation was contractually entitled to and the amounts recognized as revenue.

**TABLE 21: DIFFERENCE BETWEEN THE AMOUNTS OF INTEREST AND FEES THE CORPORATION WAS CONTRACTUALLY ENTITLED TO AND THE AMOUNTS RECOGNIZED AS REVENUE** (a) (dollars in thousands)

Year Ended December 31,	2003	2002	2001 (b)
Domestic	\$ 1,099,791	\$ 1,342,362	\$ 825,238
Foreign	85,326	68,261	33,110
Total	\$ 1,185,117	\$ 1,410,623	\$ 858,348

(a) Includes the valuation of securitized loans.

(b) During 2001, the Corporation accrued interest and fees on managed loans until the managed loans were paid or charged

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the estimated value of accrued interest and fees on securitized loans for the amount of uncollectible interest and fees that are not expected to be collected through an adjustment to accounts receivable from securitization and securitization income. This estimate is also based on a migration analysis of delinquent and current securitized loans that will progress through the various delinquency stages and ultimately charge off.

off. When the managed loans charged off, the Corporation deducted the accrued interest and fees related to the managed loans against current period income.

### **DIVIDEND LIMITATIONS**

The payment of dividends in the future and the amount of such dividends, if any, will be at the discretion of the Corporation's Board of Directors. The payment of preferred and common stock dividends by the Corporation may be limited by certain factors, including regulatory capital requirements, broad enforcement

powers of the federal bank regulatory agencies, and tangible net worth maintenance requirements under the Corporation's revolving credit facilities. The payment of common stock dividends may also be limited by the terms of the Corporation's preferred stock.

Note 25: Dividend Limitations to the audited consolidated financial statements provides further detail regarding the Corporation's dividend limitations and is incorporated by this reference into this section.

## CAPITAL ADEQUACY

The Corporation is subject to risk-based capital guidelines adopted by the Federal Reserve Board for bank holding companies. The Bank and MBNA Delaware are also subject to similar capital requirements adopted by the Office of the Comptroller of the Currency. Under these requirements, the federal bank regulatory agencies have established quantitative measures to ensure that minimum thresholds for Tier 1 Capital, Total Capital, and Leverage ratios are maintained. Failure to meet these minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by the federal bank regulators that, if undertaken, could have a direct material effect on the Corporation's, the Bank's, and MBNA Delaware's consolidated financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation, the Bank, and MBNA Delaware must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

Note 26: Capital Adequacy to the audited consolidated financial statements provides further detail regarding the Corporation's, the Bank's, and MBNA Delaware's capital adequacy and is incorporated by this reference into this section.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Corporation is a party to a number of activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's audited consolidated financial statements. Such activities include asset securitization, off-balance sheet derivative financial instruments, and other items.

## ASSET SECURITIZATION

Asset securitization is the process whereby loan principal receivables are converted into securities normally referred to as asset-backed securities. The securitization of the Corporation's loan principal receivables is accomplished through the public and private issuance of asset-backed securities and is accounted for in accordance with Statement No. 140. Asset securitization removes loan principal receivables from the consolidated statements of

the Corporation retains the remaining undivided interest and is entitled to specific cash flows allocable to that retained interest. As loan principal receivables are securitized, the Corporation's on-balance-sheet funding needs are reduced by the amount of loans securitized. Interpretation No. 46 requires consolidation of certain off-balance sheet entities. The Corporation's securitization trusts are qualified special-purpose entities as defined by Statement No. 140 that are specifically exempted from the requirements of Interpretation No. 46.

A credit card account represents a contractual relationship between the Corporation and the Customer. A loan receivable is a financial asset of the Corporation. Unlike a mortgage or other closed-end loan account, the terms of a credit card account permit a Customer to borrow additional amounts and to repay each month an amount the Customer chooses, subject to a minimum payment requirement. The account remains open after repayment of the balance and the Customer may continue to use it to borrow additional amounts. The Corporation reserves the right to change the account terms, including interest rates and fees, in accordance with the terms of the agreement and applicable law. The credit card account is, therefore, separate and distinct from the loan receivable.

In a credit card securitization, the loan principal receivables are sold to the trust, but the account relationships are not sold to the securitization trust. The Corporation retains ownership of the account relationship, including the right to change the terms of the account and the right to additional principal receivables generated by the account. During a securitization's revolving period, the Corporation agrees to sell the additional principal receivables to the trusts until the trusts begin using principal collections to make payments to investors. When the revolving period of the securitization ends, the account relationship between the Corporation and the Customer continues.

The undivided interests in the trusts sold to investors are issued through different classes of securities with different risk levels and credit ratings. The Corporation's securitization transactions are generally structured to include up to three classes of securities sold to investors. With the exception of the most senior class, each class of securities issued by the trusts provides credit enhancement, in the form of subordination, to the more senior, higher-rated classes. The most senior class of asset-backed securities is the largest and generally receives a AAA credit rating at the time of issuance. In order to issue senior classes of securities, it is necessary to obtain the appropriate amount of credit enhancement, generally through the issuance of subordinated classes. The Corporation's retained beneficial interests, such as its interest-only strip receivable and cash reserve accounts, provides credit enhancement to the other subordinated interests.

The trusts are qualified special-purpose entities as defined under Statement No. 140. To meet the criteria to be considered a qualifying special-purpose entity, a trust must be demonstrably

financial condition through the transfer of loan principal receivables to a trust. The trust then sells undivided interests to investors that entitle the investors to specified cash flows generated from the securitized loan principal receivables, while

distinct from the Corporation and have activities that are significantly limited



and entirely specified in the legal documents that established the trust. The Corporation cannot change the activities that the trusts can perform. These activities may only be changed by a majority of the beneficial interest holders not including the Corporation. As qualifying special-purpose entities under Statement No. 140, the trusts' assets and liabilities are not consolidated in the Corporation's statements of financial condition. The trusts are administered by an independent trustee.

During the revolving period, which normally ranges from 24 months to 120 months, the trust makes no principal payments to the investors in the securitization. Instead, during the revolving period, the trust uses principal payments received from Customers, which pay off the loan principal receivables that were sold to the trust, to purchase for the trust from the Corporation new loan principal receivables generated by these accounts, in accordance with the terms of the transaction, so that the principal dollar amount of the investors' undivided interest remains unchanged. Once the revolving period ends, the accumulation period begins and the trust accumulates principal payment for distribution to the investors according to the terms of the transaction. When the trust uses principal payments to pay the investors, the Corporation's on-balance-sheet loan receivables increase by the amount of any new loans on the Customer accounts because the trust is no longer purchasing new loan receivables from the Corporation. The Corporation may fund this increase with its deposit activity or re-securitize these assets.

The Corporation maintains retained interests in its securitization transactions, which are included in accounts receivable from securitization in the Corporation's audited consolidated statements of financial condition. These retained interests include the cash reserve accounts and other subordinated interests. The investors and providers of credit enhancement had a lien on a portion of these retained interests of \$1.2 billion at December 31, 2003 and 2002. Should the trusts experience cash flows which are insufficient to satisfy its obligations to the beneficial interest holders, these retained interests may become impaired. The Corporation would have no further obligation to provide funding support to either the investors or the trusts if the securitized loans are not paid when due.

Note 8: Asset Securitization to the audited consolidated financial statements provides further detail regarding the Corporation's asset securitization transactions.

### IMPACT OF OFF-BALANCE SHEET SECURITIZATION TRANSACTIONS ON THE CORPORATION'S RESULTS

When adjusted for the effects of securitization, certain components of the Corporation's audited consolidated financial information may be reconciled to its managed data. This securitization adjustment reclassifies interest income, interchange income, credit card and other consumer loan fees, insurance income, recoveries on charged-off securitized loan principal receivables in excess of interest paid to investors, gross credit losses, and other trust expenses into securitization income. Table 22 reconciles income statement data for the period to managed net interest income,

**TABLE 22: RECONCILIATION OF INCOME STATEMENT DATA FOR THE PERIOD TO MANAGED NET INTEREST INCOME, MANAGED PROVISION FOR POSSIBLE CREDIT LOSSES, AND MANAGED OTHER OPERATING INCOME**

*(dollars in thousands)*

	Year Ended December 31, 2003	2002	2001
<b>Net Interest Income</b>			
Net interest income	\$ 2,350,373	\$ 2,074,575	\$ 1,657,340
Securitization adjustments	7,854,265	7,044,102	6,546,802
Managed net interest income	\$ 10,204,638	\$ 9,118,677	\$ 8,204,142
<b>Provision for Possible Credit Losses</b>			
Provision for possible credit losses	\$ 1,392,701	\$ 1,340,157	\$ 1,140,615
Securitization adjustments	4,375,469	3,835,383	3,452,014
Managed provision for possible credit losses	\$ 5,768,170	\$ 5,175,540	\$ 4,592,629
<b>Other Operating Income</b>			
Other operating income	\$ 7,825,480	\$ 6,752,923	\$ 6,673,316
Securitization adjustments	(3,478,796)	(3,208,719)	(3,094,788)
Managed other operating income	\$ 4,346,684	\$ 3,544,204	\$ 3,578,528

Managed net interest income increased \$1.1 billion or 11.9% to \$10.2 billion for 2003, as compared to \$9.1 billion in 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, managed net interest income would have increased \$808.3 million or 8.6%, for 2003.

Average managed interest-earning assets increased \$13.3 billion or 12.3% to \$121.6 billion for 2003, as compared to \$108.4 billion in 2002. The increase in average managed interest-earning assets was primarily the result of the increase in average managed loans and investment securities and money market instruments. The yield earned on average managed interest-earning assets for 2003 was 10.97% as compared to 11.59% in 2002. The decrease in the yield earned on managed average interest-earning assets for 2003 was primarily the result of lower rates offered to attract and retain Customers and to grow managed loans combined with a decrease in the yield earned on average money market instruments and an increase in lower yielding average investment securities and money market instruments as a percentage of average total managed interest-earning assets. The decrease in the yield on average

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managed provision for possible credit losses, and managed other operating income.

managed interest-earning assets for 2003, as compared to 2002, would have been larger excluding the change in the estimated value of accrued interest and fees in 2002, which decreased the yield earned on average managed loans by 27 basis points for 2002. See Table 9 for a reconciliation of the yield earned on average managed loans to the yield earned on average managed loans excluding the change in the estimated value of accrued interest and fees in 2002.

**TABLE 23: RECONCILIATION OF AVERAGE INTEREST-EARNING ASSETS AND AVERAGE INTEREST-BEARING LIABILITIES TO AVERAGE MANAGED INTEREST-EARNING ASSETS AND AVERAGE MANAGED INTEREST-BEARING LIABILITIES**

(dollars in thousands, yields and rates on a fully taxable equivalent basis)

Year Ended December 31,	2003			2002			2001	
	Average Balance	Yield/Rate	Income or Expense	Average Balance	Yield/Rate	Income or Expense	Average Balance	Yield/Rate
<b>Assets</b>								
Net interest-earning assets	\$ 43,781,381	8.82 %	\$ 3,859,643	\$ 37,442,931	9.83 %	\$ 3,679,140	\$ 30,096,769	11.54%
Securitization adjustments	77,855,940	12.18	9,484,680	70,910,552	12.52	8,877,207	67,363,219	14.25
Managed interest-bearing liabilities								
Managed interest-earning assets	\$ 121,637,321	10.97	\$ 13,344,323	\$ 108,353,483	11.59	\$ 12,556,347	\$ 97,459,988	13.42
<b>Liabilities</b>								
Net interest-bearing liabilities	\$ 41,861,029	3.60	\$ 1,508,511	\$ 36,865,484	4.35	\$ 1,603,495	\$ 31,169,437	5.82
Securitization adjustments	80,033,724	2.04	1,630,415	72,908,284	2.51	1,833,105	68,763,345	4.44
Managed interest-bearing liabilities	\$ 121,894,753	2.58	\$ 3,138,926	\$ 109,773,768	3.13	\$ 3,436,600	\$ 99,932,782	4.87

Average managed interest-bearing liabilities increased \$12.1 billion or 11.0% to \$121.9 billion for 2003, as compared to \$109.8 billion in 2002. The increase in average managed interest-bearing liabilities was a result of the increase in average securitized loans, average interest-bearing deposits, and average borrowed funds. The decrease in the rate paid on average managed interest-bearing liabilities of 55 basis points to 2.58% for 2003, from 3.13% in 2002, reflects the continued impact of actions by the FOMC throughout 2001, in the fourth quarter of 2002, and the second quarter of 2003, that impacted overall market interest rates.

Managed net interest income increased \$914.5 million or 11.1% to \$9.1 billion for 2003, as compared to \$8.2 billion in 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, managed net interest income would have increased \$1.2 billion or 14.5%, for 2002.

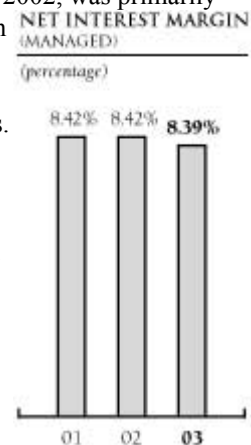
Average managed interest-bearing liabilities increased \$9.8 billion or 9.8% to \$109.8 billion for 2002, as compared to \$99.9 billion in 2001. The increase in average managed interest-bearing liabilities was a result of the increase in average securitized loans, average interest-bearing deposits, and average borrowed funds. The decrease in the rate paid on average managed interest-bearing liabilities of 174 basis points to 3.13% for 2002, from 4.87% in 2001, reflects actions by the FOMC throughout 2001 that impacted overall market interest rates and decreased the Corporation's funding costs.

The Corporation's managed net interest margin, on a fully taxable equivalent basis, was 8.39% for 2003, as compared to 8.42% for 2002. The managed net interest margin represents managed net interest income on a fully taxable equivalent basis expressed as a percentage of managed average total interest-earning assets. Excluding the change in the estimated value of accrued interest and fees in 2002, the managed net interest margin would have decreased

Table 23 reconciles average interest-earning assets and average interest-bearing liabilities to average managed interest-earning assets and average managed interest-bearing liabilities, as well as the corresponding yield earned and rate paid.

Average managed interest-earning assets increased \$10.9 billion or 11.2% to \$108.4 billion for 2002, as compared to \$97.5 billion in 2001. The increase in average managed interest-earning assets was primarily the result of the increase in average managed loans and average investment securities and money market instruments. The yield earned on average managed interest-earning assets for 2002 was 11.59% as compared to 13.42% in 2001. The decrease in the yield earned on average managed interest-earning assets for 2002 primarily reflects lower promotional and other interest rates offered to attract and retain Customers and to grow managed loans. The decrease in the yield on average managed interest-earning assets for 2002, as compared to 2001, would have been smaller excluding the change in the estimated value of accrued interest and fees in 2002, which decreased the yield earned on average managed loans by 27 basis points for 2002. See Table 9 for a reconciliation of the yield earned on average managed loans to the yield earned on average managed loans excluding the change in the estimated value of accrued interest and fees in 2002.

28 basis points for 2003 as compared to 2002. The decrease in the managed net interest margin for 2003, excluding the change in the estimated value of accrued interest and fees in 2002, was primarily the result of the decrease in the yield earned on managed average interest-earning assets partially offset by the decrease in the rate paid on managed average interest-bearing liabilities. Also, the increase in lower yielding average investment securities and money market instruments as a percentage of total managed average interest-earning assets further reduced the managed net interest margin.



**TABLE 24: RECONCILIATION OF THE NET INTEREST MARGIN RATIO TO THE MANAGED NET INTEREST MARGIN RATIO**

(dollars in thousands)

Year Ended December 31,	2003			2002			2001	
	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio	Average Earning Assets	Net Interest Income
<b>Net Interest Margin (a)</b>								
Investment securities and money market instruments (b)	\$ 11,693,550			\$ 8,257,838			\$ 6,500,608	
Other interest-earning assets (b)	3,904,013			3,869,893			3,256,773	
Loan receivables (c)	28,183,818			25,315,200			20,339,388	
<b>Total</b>	<b>\$ 43,781,381</b>	<b>\$ 2,351,132</b>	<b>5.37 %</b>	<b>\$ 37,442,931</b>	<b>\$ 2,075,645</b>	<b>5.54%</b>	<b>\$ 30,096,769</b>	<b>\$ 1,659,388</b>
<b>Securitization Adjustments</b>								
Investment securities and money market instruments	\$ -			\$ -			\$ -	
Other interest-earning assets	(3,835,216 )			(3,808,179 )			(3,197,381 )	
Securitized loans	81,691,156			74,718,731			70,560,600	
<b>Total</b>	<b>\$ 77,855,940</b>	<b>7,854,265</b>	<b>10.09</b>	<b>\$ 70,910,552</b>	<b>7,044,102</b>	<b>9.93</b>	<b>\$ 67,363,219</b>	<b>6,546,707</b>
<b>Managed Net Interest Margin (a)</b>								
Investment securities and money market instruments (b)	\$ 11,693,550			\$ 8,257,838			\$ 6,500,608	
Other interest-earning assets (b)	68,797			61,714			59,392	
Managed loans	109,874,974			100,033,931			90,899,988	
<b>Total</b>	<b>\$ 121,637,321</b>	<b>10,205,397</b>	<b>8.39</b>	<b>\$ 108,353,483</b>	<b>9,119,747</b>	<b>8.42</b>	<b>\$ 97,459,988</b>	<b>8,205,707</b>

(a) Net interest margin ratios are presented on a fully taxable equivalent basis. The fully taxable equivalent adjustment for the years ended December 31, 2003, 2002, and 2001 was \$759, \$1,070, and \$1,683, respectively.

(b) For purposes of comparability, certain prior period amounts have been reclassified.

(c) Loan receivables include loans held for securitization and the loan portfolio.

The Corporation's managed net interest margin, on a fully taxable equivalent basis, was 8.42% for both 2002 and 2001. Excluding the change in the estimated value of accrued interest and fees in 2002, the managed net interest margin would have increased 25 basis points for 2002 as compared to 2001. The increase in the managed net interest margin for 2002, excluding the change in the estimated value of accrued interest and fees in 2002, primarily reflects actions by the FOMC that impacted overall market interest rates and decreased the Corporation's funding costs. The net interest margin is reconciled to the managed net interest margin in Table 24 and the reconciliation of the managed net interest margin to the managed net interest margin excluding the change in the estimated value of accrued interest and fees in 2002 is presented in Table 25.

The managed provision for possible credit losses increased \$592.6 million or 11.5% to \$5.8 billion for 2003, and increased \$582.9 million or 12.7% to \$5.2 billion for 2002. The increase in the managed provision for possible credit losses was primarily the result of increases in the Corporation's managed net credit losses and managed loans.

Managed other operating income increased \$802.5 million or 22.6% to \$4.3 billion for 2003. Excluding the change in the estimated value of accrued interest and fees in 2002, managed other operating income would have increased \$816.5 million or 23.1% for 2003. Managed other operating income decreased \$34.3 million or 1.0% to \$3.5 billion for 2002. Excluding the change in the estimated value of accrued interest and fees in 2002, managed other operating income would have decreased \$48.3 million or 1.4% for 2002. The increase in managed other operating income for 2003, excluding the change in the estimated value of accrued interest and fees in 2002, was primarily the result of the net gains from securitization activity, which includes changes in fair value of the interest-only strip receivable and the gains from the sale of loan principal receivables, combined with an increase in credit card fees, insurance income, and interchange income. The decrease in managed other operating income for 2002, excluding the change in the estimated value of accrued interest and fees in 2002, was primarily the result of net losses from securitization activity, which includes changes in fair value of the interest-only strip receivable and the gains from the sale of loan principal receivables, partially offset by an increase in insurance income and interchange income.

**TABLE 25: RECONCILIATION OF THE AS REPORTED NET AND MANAGED NET INTEREST MARGIN RATIOS TO THE NET AND MANAGED NET INTEREST MARGIN RATIOS EXCLUDING THE CHANGE IN THE ESTIMATED VALUE OF ACCRUED INTEREST AND FEES IN 2002** (dollars in thousands)

Year Ended December 31, 2002

	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio
<b>As Reported</b>			
<b>Net Interest Margin (a)</b>			
Investment securities and money market instruments (b)	\$ 8,257,838		
Other interest-earning assets (b)	3,869,893		
Loan receivables (c)	<u>25,315,200</u>		
Total	\$ <u>37,442,931</u>	\$ 2,075,645	5.54 %
<b>Securitization Adjustments</b>			
Investment securities and money market instruments	\$ -		
Other interest-earning assets	(3,808,179 )		
Securitized loans	<u>74,718,731</u>		
Total	\$ <u>70,910,552</u>	7,044,102	9.93
<b>Managed Net Interest Margin (a)</b>			
Investment securities and money market instruments (b)	\$ 8,257,838		
Other interest-earning assets (b)	61,714		
Managed loans	<u>100,033,931</u>		
Total	\$ <u>108,353,483</u>	9,119,747	8.42
<b>Impact of the Change in the Estimated Value of Accrued Interest and Fees in 2002</b>			
<b>Net Interest Margin (a)</b>			
Investment securities and money market instruments	\$ -		
Other interest-earning assets	43,831		
Loan receivables (c)	<u>22,030</u>		
Total	\$ <u>65,861</u>	66,278	
<b>Securitization Adjustments</b>			
Investment securities and money market instruments	\$ -		
Other interest-earning assets	(43,831 )		
Securitized loans	<u>71,386</u>		
Total	\$ <u>27,555</u>	211,383	
<b>Managed Net Interest Margin (a)</b>			
Investment securities and money market instruments	\$ -		
Other interest-earning assets	-		
Managed loans	<u>93,416</u>		
Total	\$ <u>93,416</u>	277,661	
<b>Excluding the Change in the Estimated Value of Accrued Interest and Fees in 2002</b>			
<b>Net Interest Margin (a)</b>			
Investment securities and money market instruments (b)	\$ 8,257,838		
Other interest-earning assets (b)	3,913,724		
Loan receivables (c)	<u>25,337,230</u>		
Total	\$ <u>37,508,792</u>	2,141,923	5.71
<b>Securitization Adjustments</b>			
Investment securities and money market instruments	\$ -		

Other interest-earning assets	(3,852,010 )		
Securitized loans	<u>74,790,117</u>		
Total	\$ <u>70,938,107</u>	7,255,485	10.23
<b>Managed Net Interest Margin (a)</b>			
Investment securities and money market instruments (b)	\$ 8,257,838		
Other interest-earning assets (b)	61,714		
Managed loans	<u>100,127,347</u>		
Total	\$ <u>108,446,899</u>	9,397,408	8.67

(a) Net interest margin ratios are presented on a fully taxable equivalent basis. The fully taxable equivalent adjustment for the year ended December 31, 2002 was \$1,070.

(b) For purposes of comparability, certain prior period amounts have been reclassified.

(c) Loan receivables include loans held for securitization and the loan portfolio.



**TABLE 26: SECURITIZED LOANS DISTRIBUTION** (dollars in thousands)

December 31,	2003		2002		2001		2000		1999	
<b>Securitized Loans</b>										
Domestic:										
Credit card	\$ 67,620,822	79.7 %	\$ 63,886,876	81.4 %	\$ 60,501,860	83.1 %	\$ 57,425,582	83.4 %	\$ 45,851,922	84.0 %
Other consumer	5,671,832	6.7	5,677,908	7.2	5,702,658	7.8	5,691,769	8.3	3,987,180	7.3
Total domestic securitized loans	<b>73,292,654</b>	<b>86.4</b>	69,564,784	88.6	66,204,518	90.9	63,117,351	91.7	49,839,102	91.3
Foreign:										
Credit card	11,576,829	13.6	8,966,550	11.4	6,657,969	9.1	5,650,485	8.2	4,565,996	8.4
Other consumer	—	—	—	—	—	—	68,048	.1	186,706	.3
Total foreign securitized loans	<b>11,576,829</b>	<b>13.6</b>	8,966,550	11.4	6,657,969	9.1	5,718,533	8.3	4,752,702	8.7
Total securitized loans	<b>\$ 84,869,483</b>	<b>100.0%</b>	\$ 78,531,334	100.0%	\$ 72,862,487	100.0%	\$ 68,835,884	100.0%	\$ 54,591,804	100.0%

### OFF-BALANCE SHEET SECURITIZATION TRANSACTION ACTIVITY

During 2003, the Corporation securitized credit card loan principal receivables totaling \$13.6 billion, including the securitization of £1.2 billion (approximately \$2.0 billion) by MBNA Europe and CAD\$1.0 billion (approximately \$751.5 million) by MBNA Canada. The total amount of securitized loans was \$84.9 billion or 71.6% of managed loans at December 31, 2003, as compared to \$78.5 billion or 73.2% at December 31, 2002. The total amount of securitized domestic credit card loans was 78.8% of managed domestic credit card loans at December 31, 2003, as compared to 80.4% at December 31, 2002. Securitized domestic other consumer loans were 47.7% of managed domestic other consumer loans at December 31, 2003, as compared to 47.3% at December 31, 2002. Securitized foreign loans were 55.7% of managed foreign loans at December 31, 2003, as compared to 56.8% at December 31, 2002.

Table 26 presents the Corporation's securitized loans distribution.

During 2003, there was an increase of \$8.5 billion in the Corporation's loan receivables that occurred when certain securitizations matured as scheduled and the trusts used principal payments to pay the investors rather than purchasing new loan

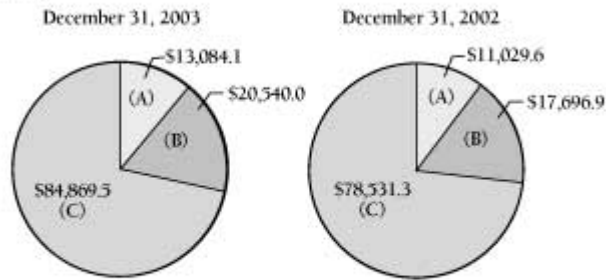
principal receivables from the Corporation. The Corporation's loan portfolio is expected to increase an additional \$14.9 billion during 2004 as a result of estimated maturities of existing securitization transactions when trusts use principal payments to pay investors rather than purchasing new loan principal receivables from the Corporation. This amount is based upon the estimated maturity of outstanding securitization transactions and does not include any future securitization activity. Should the Corporation choose or be unable to securitize these assets in the future, additional on-balance sheet funding and capital would be required.

Table 27 presents the Corporation's estimated maturities of investor principal.

**TABLE 27: ESTIMATED MATURITIES OF INVESTOR PRINCIPAL** (dollars in thousands)

2004 (a)	\$ 14,864,699
2005	12,498,872
2006	11,761,600
2007	15,469,964
2008	10,966,618
Thereafter	17,803,237
Total amortization of investor principal	83,364,990
Estimated collectible billed interest and fees included in securitized loans	1,504,493

(millions)



( A ) Loans Held for Securitization  
 ( B ) Loan Portfolio  
 ( C ) Securitized Loans

The \$4.5 billion Emerald Note Program, comprised of short-term commercial paper, is included in the 2004 category based on the possibility that maturing Emerald Notes cannot be re-issued. This event would cause the transaction to begin amortizing, thus creating a liquidity requirement. However, the Corporation expects the Emerald Notes to continue to be re-issued during the course of the program through the scheduled final maturity date.

(a) The Corporation's securitization transactions contain provisions which could require that the excess spread generated by the securitized loans be accumulated in the trusts to provide additional credit enhancement to the investors. These provisions require that excess spread be retained once the yields in excess of minimum yield for three consecutive months falls below a range of 6.50% to 4.00% depending on the terms of the particular securitization transaction. At December 31, 2003 and 2002, no excess spread was held by the trusts under these provisions.

**TABLE 28: SECURITIZATION TRUST YIELDS IN EXCESS OF MINIMUM YIELD DATA** (dollars in thousands)

	For the Three Months Ended December 31, 2003							
	Investor Principal	Number of Series in Trust	Average Annualized Yield	Average Minimum Yield	Yield in Excess of Minimum (a)			
					Weighted Average	Series Range		
					High	Low		
MBNA Master Credit Card Trust II	\$31,000,757	43	17.69 %	9.27 %	8.42 %	8.73%	7.60%	
MBNA Credit Card Master Note Trust (b)	32,426,435	62	17.68	9.14	8.54	8.54	8.54	
MBNA Master Consumer Loan Trust	5,560,278	3	(c )	(c )	(c )	(c )	(c )	
MBNA Triple A Master Trust	2,000,000	2	16.74	8.75	7.99	8.02	7.98	
Multiple Asset Note Trust	1,000,000	2	18.61	8.88	9.73	9.74	9.72	
U.K. Receivables Trust	3,222,539	6	19.57	10.63	8.94	9.49	6.76	
U.K. Receivables Trust II	5,373,441	7	17.44	10.19	7.25	7.53	6.05	
Gloucester Credit Card Trust	2,781,540	10	19.12	9.87	9.25	9.87	7.51	

- (a) The Yield in Excess of Minimum Yield represents the trust's average annualized yield less its average minimum yield. MBNA Credit Card Master Note Trust issues a series of notes called the MBNAseries. Through the MBNAseries, MBNA Credit Card Master Note Trust issues specific classes of notes which contribute on a prorated basis to the calculation of the average yield in excess of minimum yield. This average yield in excess of minimum yield impacts the distribution of principal to investors of all classes within the MBNAseries.
- (b) The MBNA Master Consumer Loan Trust yield in excess of minimum yield does not impact the distribution of principal to investors.
- (c) Distribution to investors for transactions in this trust may begin earlier than the scheduled time if the credit enhancement amount falls below a predetermined contractual level. As a result, its yields are excluded from this Table.

Distribution of principal to investors may begin sooner if the average annualized yield (generally including interest income, interchange income, charged-off loan recoveries, and other fees) for three consecutive months drops below a minimum yield (generally equal to the sum of the interest rate payable to investors, contractual servicing fees, and principal credit losses during the period) or certain other events occur. If distribution of principal to investors began sooner than expected, the Corporation would likely need to raise additional capital to support loan and asset growth and meet regulatory capital requirements.

Table 28 presents summarized yields for each trust for the three-month period ended December 31, 2003. The yield in excess of minimum yield for each of the trusts is presented on a cash basis and includes various credit card or other fees as specified in the securitization agreements. If the yield in excess of minimum falls below 0% for a contractually specified period, generally a three-month average, the securitizations will begin to amortize earlier than their scheduled contractual maturity date.

#### OTHER OFF-BALANCE SHEET ARRANGEMENTS

In January 2003, Interpretation No. 46 was issued. In accordance with Interpretation No. 46, the Corporation has determined that MBNA Capital A, MBNA Capital B, MBNA Capital C, MBNA Capital D, and MBNA Capital E (collectively the "statutory

#### LIQUIDITY AND RATE SENSITIVITY

The Corporation seeks to maintain prudent levels of liquidity, interest rate, and foreign currency exchange rate risk.

#### LIQUIDITY MANAGEMENT

Liquidity management is the process by which the Corporation manages the use and availability of various funding sources to meet its current and future operating needs. These needs change as loans grow, securitizations mature, debt and deposits mature, and payments on other obligations are made. Because the characteristics of the Corporation's assets and liabilities change, liquidity management is a dynamic process, affected by the pricing and maturity of investment securities, loans, deposits, securitizations, and other assets and liabilities.

The Corporation manages liquidity at two primary levels. The first level is the liquidity of the parent company, which is the holding company that owns the banking subsidiaries. The second level is the liquidity of the banking subsidiaries. The management of liquidity at both levels is essential because the parent company and banking subsidiaries each have different funding needs and funding sources and each are subject to certain regulatory guidelines and requirements.

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trusts”), are variable interest entities and that the Corporation is not the primary beneficiary. See Note 17: Long-Term Debt and Bank Notes of the audited consolidated financial statements for further discussion of the statutory trusts.

The Corporation utilizes certain derivative financial instruments to enhance its ability to manage interest rate risk and foreign currency exchange rate risk that exist as part of its ongoing business operations. See Note 30: Fair Value of Financial Instruments of the audited consolidated financial statements for further detail regarding the Corporation’s derivative financial instruments.

The liquidity requirements of the Corporation are met by the proceeds of regular dividend payments from the Bank, the growth in retained earnings from regular operations, and the issuance of unsecured senior medium-term notes and senior notes. The available cash position of the Corporation’s parent-only legal entity is maintained at a level sufficient to meet anticipated cash needs for at least one year. The liquidity of the banking subsidiaries is managed to reflect the anticipated cash required to finance loan demand and to maintain sufficient liquid assets to cover the maturities for the next six months for all off-balance sheet securitizations, unsecured debt, and wholesale money market funding sources. The level of liquid assets, which is comprised of

**TABLE 29: ESTIMATED CONTRACTUAL OBLIGATIONS (a) (b) (dollars in thousands)**

	Estimated Contractual Obligations at December 31, 2003				
	Within 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
Long-term debt and bank notes (par) (c)	\$ 2,052,885	\$2,314,300	\$3,018,548	\$4,478,784	\$11,864,517
Minimum rental payments under noncancelable operating leases	28,400	29,391	2,070	134	59,995
Purchase obligations (d)	364,347	339,904	242,928	65,698	1,012,877
Other long-term liabilities reflected in the Corporation's audited consolidated statements of financial condition (e)	120,981	131,956	40,353	–	293,290
<b>Total estimated contractual obligations</b>	<b>\$ 2,566,613</b>	<b>\$2,815,551</b>	<b>\$3,303,899</b>	<b>\$4,544,616</b>	<b>\$13,230,679</b>

- (a) Note 30: Fair Value of Financial Instruments—Derivative Financial Instruments provides detail on the Corporation's derivative financial instruments. These amounts are not included in this Table.
- (b) Table 30 provides detail on the maturities of deposits. These amounts are not included in this Table.
- (c) Excludes interest.
- (d) Includes the royalties to endorsing organizations payable in the future subject to certain conditions, Community Reinvestment Act obligations that cannot be canceled, and other purchase obligations.
- (e) Includes amounts accrued for Customer reward programs, and other long-term obligations.

the investments and money market assets described further in "Investment Securities and Money Market Instruments," is managed to a size prudent for both anticipated loan receivable growth and overall conditions in the markets for asset-backed securitization, unsecured corporate debt, and short-term borrowed funds. The Corporation, the Bank, MBNA Europe, and MBNA Canada also have access to the credit facilities described further in Note 27: Commitments and Contingencies of the audited consolidated financial statements. Finally, the deposit funding sources are also used to finance loan receivable growth and to maintain a sufficient level of liquid assets.

Table 29 provides a summary of the estimated amounts and maturities of the contractual obligations of the Corporation at December 31, 2003.

If certain terms on the above estimated contractual requirements are not met, there may be an acceleration of the payment due dates noted above. As of December 31, 2003, the Corporation was not in default of any such covenants. The Corporation estimates that it will have \$2.6 billion in contractual obligation requirements within the next year.

## ASSET SECURITIZATION

At December 31, 2003, the Corporation funded 71.6% of its managed loans through securitization transactions. To maintain an appropriate funding level, the Corporation expects to securitize additional loan principal receivables during 2004. The consumer asset-backed securitization market in the United States exceeded \$1.6 trillion at December 31, 2003, with approximately \$440 billion of asset-backed securities issued during 2003. An additional \$233 billion of consumer asset-backed securities were issued in European markets during 2003. The Corporation is a leading issuer

levels include the overall credit quality of the Corporation's loans, the stability of the market for securitization transactions, and the legal, regulatory, accounting, and tax environments impacting securitization transactions. The Corporation does not believe adverse outcomes from these events are likely to occur. If the Corporation were unable to continue to securitize its loan receivables at current levels, the Corporation would use its investment securities and money market instruments in addition to alternative funding sources to fund increases in loan receivables and meet its other liquidity needs. The resulting change in the Corporation's current liquidity sources could potentially subject the Corporation to certain risks. These risks would include an increase in the Corporation's cost of funds, increases in the reserve for possible credit losses and the provision for possible credit losses as more loans would remain in the Corporation's audited consolidated statements of financial condition, and restrictions on loan growth if the Corporation were unable to find alternative and cost-effective funding sources.

In addition, if the Corporation could not continue to remove the loan principal receivables from the Corporation's audited consolidated statements of financial condition, the Corporation would likely need to raise additional capital to support loan and asset growth and meet regulatory capital requirements.

Table 27 presents the estimated maturities of investor principal.

## STOCK REPURCHASES

To the extent stock options are exercised or restricted shares are awarded from time to time under the Corporation's Long Term Incentive Plans, the Board of Directors has approved the purchase, on the open market or in privately negotiated transactions, of the number of common shares issued.

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in these markets, which have remained stable through adverse conditions. Despite the size and relative stability of these markets and the Corporation's position as a leading issuer, if these markets experience difficulties, the Corporation may be unable to securitize its loan principal receivables or to do so at favorable pricing levels. Factors affecting the Corporation's ability to securitize its loan principal receivables or to do so at favorable pricing

During 2003, the Corporation issued 29.2 million common shares upon the exercise of stock options and issuance of restricted stock, and purchased 29.2 million common shares for \$618.3 million. The Corporation received \$275.8 million in proceeds from the exercise of stock options during 2003.

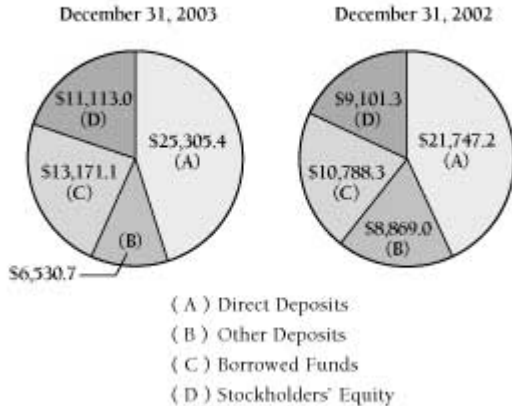
In the third quarter of 2003, the Corporation issued 50.0 million shares of its common stock in a public offering for approximately \$1.1 billion, net of issuance costs. The shares were issued under the Corporation's existing shelf registration statement. The Corporation used the proceeds to repurchase the same number of shares at the same price from the estate of the Corporation's former Chairman and Chief Executive Officer. The estate has the right to cause the sale of shares through a registration rights agreement entered into in 1991 at the time of the Corporation's initial public offering. The issuance and repurchase were done to satisfy the Corporation's obligation related to the sale of shares by the estate. The sale and repurchase of common stock did not impact total common stock outstanding or capital levels.

## FUNDING

To facilitate liquidity management, the Corporation uses a variety of funding sources to establish a maturity pattern that provides a prudent mixture of short-term and long-term funds. The Corporation obtains funds through deposits and debt issuances, and uses securitization of the Corporation's loan principal receivables as a major funding alternative. In addition, further liquidity is provided to the Corporation through committed credit facilities.

### FUNDING SOURCES

(millions)



## CREDIT FACILITIES

The Corporation, the Bank, MBNA Europe, and MBNA Canada have various credit facilities. These facilities may be used for general corporate purposes and were not drawn upon at December 31, 2003.

Note 27: Commitments and Contingencies to the audited consolidated financial statements provides further detail regarding the Corporation's credit facilities and is incorporated by this reference into this section.

## BORROWED FUNDS

Short-term borrowings used by the Corporation include federal funds purchased and securities sold under repurchase agreements. Federal funds purchased and securities sold under repurchase agreements are overnight borrowings that normally mature within one business day of the transaction date. Other short-term borrowings consist primarily of federal funds purchased that mature in more than one business day, short-term bank notes issued from the global bank note program established by the Bank, short-term deposit notes issued by MBNA Canada, and other transactions with maturities greater than one business day but less than one year. Short-term borrowings were \$1.0 billion and \$1.3 billion for December 31, 2003 and 2002, respectively.

Other funding programs established by the Corporation for long-term borrowings include senior medium-term notes and senior notes. Other funding programs established by the Corporation's bank subsidiaries include the Bank's global bank note program, MBNA Europe's euro medium-note program, and MBNA Canada's medium-term deposit note program. MBNA Europe and MBNA Canada's notes are unconditionally and irrevocably guaranteed in respect to all payments by the Bank.

Long-term debt and bank notes were \$12.1 billion and \$9.5 billion for December 31, 2003 and 2002, respectively. See Table 29 for estimated maturities of the contractual obligations related to long-term debt and bank notes as of December 31, 2003.

Note 16: Short-Term Borrowings and Note 17: Long-Term Debt and Bank Notes to the audited consolidated financial statements provide further detail regarding the Corporation's borrowed funds and is incorporated by this reference into this section.

## DEPOSITS

The Corporation utilizes deposits to fund loan and other asset growth and to diversify funding sources. The Corporation categorizes its deposits into either direct or other deposits. Direct deposits are deposits marketed to and received from individual Customers without the use of a third-party intermediary, and are an important, stable, low-cost funding source that typically react more slowly to interest rate changes than other deposits. Other deposits, which include brokered deposits, are deposits generally obtained through the use of a third-party intermediary.

Total deposits increased \$1.2 billion or 4.0% to \$31.8 billion at December 31, 2003, as compared to \$30.6 billion at December 31, 2002.

Table 30 provides the maturities of the Corporation's deposits at December 31, 2003. Included in the deposit maturity category of one year or less are money market deposit accounts, noninterest-bearing deposits, interest-bearing transaction accounts, and savings accounts totaling \$10.3 billion. Based on past activity, the Corporation expects to retain a majority of its deposit balances as they mature.

**TABLE 30: MATURITIES OF DEPOSITS (dollars in thousands)**

December 31, 2003	Direct Deposits	Other Deposits (a)	Total Deposits
<b>Domestic:</b>			
One year or less	\$16,401,083	\$2,686,220	<b>\$19,087,303</b>
Over one year through two years	3,954,095	1,871,494	<b>5,825,589</b>
Over two years through three years	1,568,129	1,044,247	<b>2,612,376</b>
Over three years through four years	1,487,057	779,926	<b>2,266,983</b>
Over four years through five years	830,244	121,424	<b>951,668</b>
Over five years	8,615	–	<b>8,615</b>
Total domestic deposits	24,249,223	6,503,311	<b>30,752,534</b>
Foreign (b)	1,056,175	27,372	<b>1,083,547</b>
Total deposits	<u>\$25,305,398</u>	<u>\$6,530,683</u>	<u><b>\$31,836,081</b></u>

- (a) At December 31, 2003, all other deposits were brokered deposits.
- (b) At December 31, 2003, all foreign deposits had maturities of one year or less.

Table 31 presents the maturity distribution of the Corporation's time deposits in amounts of \$100,000 or more at December 31, 2003, 2002 and 2001.

Included in the Corporation's direct deposits at December 31, 2003 and 2002 were noninterest-bearing deposits of \$2.4 billion and \$915.7 million, representing 7.6% and 3.0% of total deposits, respectively. The increase in noninterest-bearing deposits was a

**TABLE 31: TIME**

result of the change in the timing of the remittance of principal collections on securitized loans to the trust. Since the second quarter of 2003, the Corporation is no longer obligated to transfer principal collections to the Corporation's primary domestic credit card trust on a daily basis. These funds are now retained on behalf of the trust by the Corporation until remittance on a monthly basis. The Corporation also had interest-bearing direct deposits at December 31, 2003 of \$22.9 billion, as compared to \$20.8 billion at December 31, 2002.

Included in the Corporation's other deposits at December 31, 2003 and 2002, were brokered deposits of \$6.5 billion and \$8.3 billion, representing 20.5% and 27.1% of total deposits, respectively. If any of the brokered deposits are not renewed at maturity, the funding they provide could be replaced by funds from maturing investment securities and money market instruments or other funding sources to fund increases in its loan receivables and meet the Corporation's other liquidity needs. During 2003, other deposits decreased because the Corporation determined it had adequate liquidity from other sources to meet its funding needs. While the Corporation utilized other alternative funding sources during this period, brokered deposits will continue to be part of its funding activities. The Federal Deposit Insurance Corporation Improvement Act of 1991 limits the use of brokered deposits to "well-capitalized" insured depository institutions, and with a waiver from the Federal Deposit Insurance Corporation, to "adequately capitalized" institutions. At December 31, 2003, the Bank and MBNA Delaware were "well-capitalized" as defined under the federal bank regulatory guidelines. Based on the Corporation's historical access to the brokered deposit market, it expects to replace maturing brokered deposits with new brokered deposits or with the Corporation's direct deposits.

**DEPOSITS OF \$100,000 OR MORE (a) (dollars in thousands)**

December 31,	2003		2002		2001	
<b>Three months or less:</b>						
Domestic	\$ 438,832	10.2 %	\$ 548,380	13.8 %	\$ 643,012	15.5 %
Foreign	852,249	19.9	611,135	15.3	711,960	17.1
Total three months or less	<b>1,291,081</b>	<b>30.1</b>	1,159,515	29.1	1,354,972	32.6
<b>Over three months through six months:</b>						
Domestic	360,223	8.4	479,662	12.0	745,978	18.0
Foreign	4,032	.1	22,167	.6	49,266	1.2
Total over three months through six months	<b>364,255</b>	<b>8.5</b>	501,829	12.6	795,244	19.2
<b>Over six months through twelve months:</b>						
Domestic	722,902	16.9	654,637	16.4	827,575	19.9
Foreign	5,626	.1	14,509	.4	3,622	.1



Total over six months through twelve months	<b>728,528</b>	<b>17.0</b>	669,146	16.8	831,197	20.0
<b>Over twelve months:</b>						
Domestic	<b>1,900,128</b>	<b>44.4</b>	1,654,141	41.5	1,172,604	28.2
Foreign	–	–	250	–	250	–
Total over twelve months	<b>1,900,128</b>	<b>44.4</b>	1,654,391	41.5	1,172,854	28.2
<b>Total</b>	<b>\$ 4,283,992</b>	<b>100.0%</b>	<b>\$ 3,984,881</b>	<b>100.0%</b>	<b>\$ 4,154,267</b>	<b>100.0%</b>

(a) This table excludes deposits obtained by a third-party intermediary in amounts of \$100,000 or more which were subsequently distributed by intermediaries to individuals in denominations of less than \$100,000.

**TABLE 32: INVESTMENT SECURITIES** (dollars in thousands, yields on a fully taxable equivalent basis)

	Estimated Maturities at December 31, 2003												Market Value
	Within 1 Year		1-5 Years		6-10 Years		Over 10 Years		Total		Amortized Cost		
	Book	Yield	Book	Yield	Book	Yield	Book	Yield	Book	Yield	Cost		
<b>Available-for-Sale</b>													
Domestic:													
U.S. Treasury and other U.S. government agencies obligations	\$ 1,006,504	2.54%	\$ 1,025,112	1.65%	\$-	-	% \$ -	-	% \$ 2,031,616	2.09%	\$ 2,024,520	\$ 2,031,616	
State and political subdivisions of the United States	102,685	1.96	-	-	-	-	-	-	102,685	1.96	102,685	102,685	
Asset-backed and other securities	488,060	2.39	1,255,420	1.44	57,388	1.33	165	1.26	1,801,033	1.70	1,796,824	1,801,033	
Total domestic investment securities available-for-sale	1,597,249	2.46	2,280,532	1.54	57,388	1.33	165	1.26	3,935,334	1.91	3,924,029	3,935,334	
Foreign	91,750	4.03	336,003	4.07	-	-	-	-	427,753	4.06	428,040	427,753	
Total investment securities available-for-sale	\$ 1,688,999	2.54	\$ 2,616,535	1.86	\$57,388	1.33	\$ 165	1.26	\$ 4,363,087	2.12	\$ 4,352,069	\$ 4,363,087	
<b>Held-to-Maturity</b>													
Domestic:													
U.S. Treasury and other U.S. government agencies obligations	\$ -	-	\$ -	-	\$-	-	\$ 335,445	5.21	\$ 335,445	5.21	\$ 335,445	\$ 336,580	
State and political subdivisions of the United States	135	7.23	-	-	649	6.94	6,831	7.91	7,615	7.82	7,615	7,786	
Asset-backed and other securities	-	-	-	-	-	-	9,239	4.81	9,239	4.81	9,239	9,066	
Total domestic investment securities held-to-maturity	135	7.23	-	-	649	6.94	351,515	5.25	352,299	5.26	352,299	353,431	
Foreign	-	-	1,000	5.30	-	-	-	-	1,000	5.30	1,000	1,000	
Total investment securities held-to-maturity	\$ 135	7.23	\$ 1,000	5.30	\$649	6.94	\$ 351,515	5.25	\$ 353,299	5.26	\$ 353,299	\$ 354,431	

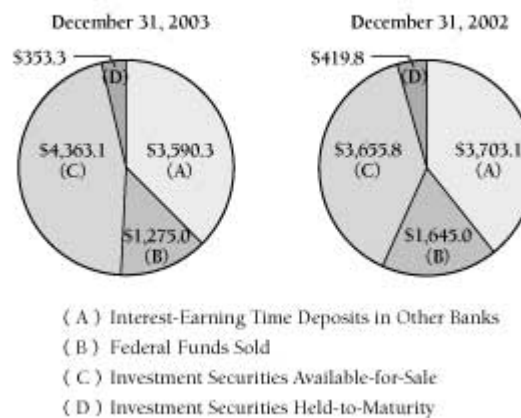
## INVESTMENT SECURITIES AND MONEY MARKET INSTRUMENTS

The Corporation also held \$4.7 billion of investment securities and \$4.9 billion of money market instruments at December 31, 2003, compared to \$4.1 billion of investment securities and \$5.3 billion in money market instruments at December 31, 2002. The investment securities primarily consist of high-quality, AAA-rated securities, most of which can be used as collateral under repurchase agreements. Of the investment securities held at December 31, 2003, \$1.7 billion are anticipated to mature within 12 months. The Corporation's investment securities available-for-sale portfolio, which consists primarily of U.S. Treasury obligations or short-term and variable-rate securities, was \$4.4 billion at December 31, 2003, and \$3.7 billion at December 31, 2002. These investment securities, along with the money market instruments, provide increased liquidity and flexibility to support the Corporation's funding requirements. Investment securities and money market instruments remained relatively flat at December 31, 2003, compared to December 31, 2002.

Table 32 presents the summary of investment securities.

INVESTMENT SECURITIES AND MONEY MARKET INSTRUMENTS

(millions)



**TABLE 33: INTEREST RATE SENSITIVITY SCHEDULE** (dollars in thousands)

December 31, 2003	Subject to Repricing			Total
	Within 1 Year	1-5 Years	After 5 Years	
<b>Interest-Earning Assets</b>				
Interest-earning time deposits in other banks:				
Domestic	\$1,175	\$-	\$-	\$1,175
Foreign	3,589,154	-	-	3,589,154
Total interest-earning time deposits in other banks	3,590,329	-	-	3,590,329
Federal funds sold	1,275,000	-	-	1,275,000
Investment securities (a):				
Available-for-sale:				
Domestic	2,466,554	1,468,780	-	3,935,334
Foreign	91,750	336,003	-	427,753
Total available-for-sale	2,558,304	1,804,783	-	4,363,087
Held-to-maturity:				
Domestic	135	-	352,164	352,299
Foreign	-	1,000	-	1,000
Total held-to-maturity	135	1,000	352,164	353,299
Other interest-earning assets	3,904,402	-	70,040	3,974,442
Loans held for securitization:				
Domestic	10,285,915	-	-	10,285,915
Foreign	2,798,190	-	-	2,798,190
Total loans held for securitization	13,084,105	-	-	13,084,105
Loan portfolio:				
Domestic:				
Credit card	6,176,434	1,728,739	-	7,905,173
Other consumer	4,748,202	1,064,607	398,207	6,211,016
Total domestic loan portfolio	10,924,636	2,793,346	398,207	14,116,189
Foreign	3,624,393	2,799,390	-	6,423,783
Total loan portfolio	14,549,029	5,592,736	398,207	20,539,972
Total interest-earning assets	38,961,304	7,398,519	820,411	47,180,234
<b>Interest-Bearing Liabilities</b>				
Interest-bearing deposits:				
Domestic:				
Time deposits	9,001,744	11,656,616	8,615	20,666,975
Money market deposit accounts	7,790,726	-	-	7,790,726
Interest-bearing transaction accounts	47,334	-	-	47,334
Savings accounts	49,930	-	-	49,930
Total domestic interest-bearing deposits	16,889,734	11,656,616	8,615	28,554,965
Foreign:				
Time deposits	861,907	-	-	861,907
Total interest-bearing deposits	17,751,641	11,656,616	8,615	29,416,872
Borrowed funds:				
Short-term borrowings:				
Domestic	899,779	-	-	899,779
Foreign	125,684	-	-	125,684
Total short-term borrowings	1,025,463	-	-	1,025,463
Long-term debt and bank notes:				
Domestic	868,317	3,978,100	2,347,874	7,194,291
Foreign	2,696,360	1,176,166	1,078,811	4,951,337
Total long-term debt and bank notes	3,564,677	5,154,266	3,426,685	12,145,628
Total borrowed funds	4,590,140	5,154,266	3,426,685	13,171,091
Total interest-bearing liabilities	22,341,781	16,810,882	3,435,300	42,587,963

Gap before managed adjustments	<b>16,619,523</b>	(9,412,363 )	(2,614,889)	4,592,271
Managed adjustments (b)	<b>(25,036,704)</b>	22,845,190	3,460,894	1,269,380
Gap after managed adjustments	<b>\$ (8,417,181 )</b>	\$13,432,827	\$846,005	\$5,861,651
Cumulative gap after managed adjustments	<b>\$ (8,417,181 )</b>	\$5,015,646	\$5,861,651	
Cumulative gap after managed adjustments as a % of managed assets	<b>(5.91 )%</b>	3.52 %	4.11 %	

(a) Investment securities are presented using estimated maturities.

(b) Managed adjustments reflect the impact interest rates have on securitized loans and derivative financial instruments.

### INTEREST RATE SENSITIVITY

Interest rate sensitivity refers to the change in earnings resulting from fluctuations in interest rates, variability in the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities, and the differences in repricing intervals between assets

and liabilities. Interest rate changes also impact the estimated value of the interest-only strip receivable and other-interest earning assets, and securitization income. The management of interest rate sensitivity attempts to maximize earnings by minimizing any negative impacts of changing market rates, asset and liability mix,

and prepayment trends. Interest rate sensitive assets/liabilities have yields/rates that can change within a designated time period as a result of their maturity, a change in an underlying index rate, or the contractual ability of the Corporation to change the yield/rate.

Interest rate risk refers to potential changes in current and future net interest income resulting from changes in interest rates and differences in the repricing characteristics between interest rate sensitive assets and liabilities. The Corporation analyzes its level of interest rate risk using several analytical techniques. In addition to on-balance-sheet activities, interest rate risk includes the interest rate sensitivity of securitization income from securitized loans and the impact of interest rate swap agreements and foreign exchange swap agreements. The Corporation uses interest rate swap agreements and foreign exchange swap agreements to change a portion of fixed-rate funding sources to floating-rate funding sources to better match the rate sensitivity of the Corporation's assets. For this reason, the Corporation analyzes its level of interest rate risk on a managed basis to quantify and capture the full impact of interest rate risk on the Corporation's earnings.

The Corporation's interest rate risk using the static gap methodology is presented in Table 33. This method reports the difference between interest rate sensitive assets and liabilities at a specific point in time. Management uses the static gap methodology to identify the Corporation's directional interest rate risk. Interest rate sensitive assets and liabilities are reported based on estimated and contractual repricings. Fixed-rate credit card loans, which may be repriced by the Corporation at any time by giving notice to the Customer, are placed in the table using a seventeen-month repricing schedule. The Corporation also offers variable-rate credit card loans. At December 31, 2003, variable-rate loans made up 7.0% of total managed loans, compared to 6.0% of total managed loans at December 31, 2002. These variable-rate loans are generally indexed to the U.S. Prime Rate published in *The Wall Street Journal* and reprice quarterly. Including the managed adjustment, results of the gap analysis show that, within one year, the Corporation's liabilities reprice faster than its assets, indicating an earnings risk from rising interest rates.

Although the static gap methodology is widely accepted for its simplicity in identifying interest rate risk, it ignores many changes that can occur, such as repricing strategies, market spread adjustments, and anticipated hedging transactions. For these reasons, the Corporation analyzes its level of interest rate risk using several other analytical techniques, including simulation analysis. All of the analytical techniques used by the Corporation to measure interest rate risk include the impact of its financial assets and liabilities, derivative financial instruments, and asset securitizations.

Assumptions in the Corporation's simulation analysis include cash flows and maturities of interest rate sensitive instruments, changes in market conditions, loan volumes and pricing, consumer preferences, fixed-rate credit card repricings as part of the Corporation's normal planned business strategy, and management's capital plans. The analysis also assumes that there is no impact on an annual basis in the value of the interest-only strip receivable. Also included in the analysis are various actions which the Corporation would likely undertake to minimize the impact of adverse movements in interest rates. Based on the simulation analysis at December 31, 2003, the Corporation could experience a decrease in projected net income during the next 12 months of approximately \$72 million, if interest rates at the time the simulation analysis was performed increased 100 basis points over the next 12 months evenly distributed on the first day of each of the next four quarters.

These assumptions are inherently uncertain and, as a result, the analysis cannot precisely predict the impact of higher interest rates on net income. Actual results would differ from simulated results as a result of timing, magnitude, and frequency of interest rate changes, changes in market conditions, and management strategies to offset the Corporation's potential exposure, among other factors. The Corporation has the contractual right to reprice fixed-rate credit card loans at any time by giving notice to the Customer. Accordingly, a key assumption in the simulation analysis is the repricing of fixed-rate credit card loans in response to an upward movement in interest rates, with a lag of approximately 45 days between interest rate movements and fixed-rate credit card loan repricings. The Corporation has repriced its fixed-rate credit card loans on numerous occasions in the past; its ability to do so in the future will depend on changes in interest rates, market conditions, and other factors.

## FOREIGN CURRENCY EXCHANGE RATE SENSITIVITY

Foreign currency exchange rate risk refers to the potential changes in current and future earnings or capital arising from movements in foreign exchange rates and occurs as a result of cross-currency investment and funding activities. The Corporation's foreign currency exchange rate risk is limited to the Corporation's net investment in its foreign subsidiaries which is unhedged. The Corporation uses forward exchange contracts and foreign exchange swap agreements to reduce its exposure to foreign currency exchange rate risk. Management reviews the foreign currency exchange rate risk of the Corporation on a routine basis. During this review, management considers the net impact to stockholders' equity under various foreign exchange rate scenarios. At

December 31, 2003, the Corporation could experience a decrease in stockholders' equity, net of tax, of approximately \$192 million as a result of a 10% depreciation of the Corporation's unhedged capital exposure in foreign subsidiaries to the U.S. dollar position.

## **CROSS-BORDER OUTSTANDINGS**

At December 31, 2003 and 2002 the Corporation had cross-border outstandings in excess of 1% of total consolidated assets in the U.K. of \$3.6 billion and \$3.7 billion, respectively. At December 31, 2001 the amount was \$1.0 billion. The Corporation does not have significant local currency outstanding in the U.K. that is not hedged or funded by local currency borrowings. The cross-border outstandings in the U.K. are primarily short-term in nature.

## **REGULATORY MATTERS**

### **INTERCHANGE INCOME**

Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network as compensation for risk, grace period, and other operating costs. After a lengthy investigation by U.K. regulators of MasterCard interchange rates in the U.K., the regulators issued updated preliminary conclusions on February 11, 2003, finding that the interchange fee paid by merchant acquirers to MasterCard card issuers in the U.K. is anti-competitive and that the agreement between MasterCard's U.K. members for interchange leads to an unjustifiably high fee being paid to card-issuing banks. A hearing was held on May 21, 2003, and the regulator's ruling is pending. The ruling may be appealed and the timing of a final ruling is uncertain. Similar regulatory action could be taken against VISA interchange rates in the U.K. In 2002, in response to European Union regulatory action, VISA agreed to reduce its interchange fee on transactions across country lines within the European Union, and in line with this reduction in October 2003, VISA reduced its interchange fee on transactions in the U.K. The Corporation cannot predict if or when interchange rates in the U.K. could be reduced. Any potential impact could also vary based on business strategies or other actions the Corporation will take to attempt to limit the impact.

### **BASEL COMMITTEE**

In April 2003, the Basel Committee on Banking Supervision (the "Committee") issued a consultative document for public comment, "The New Basel Capital Accord," which proposes significant

revisions to the current Basel Capital Accord. The proposed new accord would establish a three-part framework for capital adequacy that would include: (1) minimum capital requirements; (2) supervisory review of an institution's capital adequacy and ~~internal assessment process~~; and (2) market discipline through increased disclosures regarding capital adequacy.

In August 2003, an advance notice of proposed rulemaking was published by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision (collectively "the Agencies"). The advance notice of proposed rulemaking was titled "Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord; Internal Ratings-Based Systems for Corporate Credit and Operational Risk Advanced Measurement Approaches for Regulatory Capital; Proposed Rule and Notice" ("Proposed Regulatory Guidance"). The Proposed Regulatory Guidance sets forth for industry comment the Agencies' views on a proposed framework for implementing the New Basel Capital Accord in the United States. In particular, the Proposed Regulatory Guidance describes significant elements of the Advanced Internal Ratings-Based approach for credit risk and the Advanced Measurement Approaches for operational risk. The Agencies have determined that the advanced risk and capital measurement methodologies of the new accord will be applied on a mandatory basis for large, internationally active banking organizations. Institutions subject to the mandatory application of the advanced approaches would be those institutions with total banking assets of \$250 billion or more or those institutions, such as the Corporation, with total on-balance-sheet foreign exposure of \$10 billion or more.

The final form of the rules to be adopted by U.S. bank regulators is still to be determined. Adoption of the proposed new accord could lower capital ratios for U.S. banking organizations, such as the Corporation's banking subsidiaries, due in part to a new capital charge for operational risk and to the final treatment of certain credit risk exposures, including the treatment of credit card loans and asset securitizations, in calculating regulatory capital.

Future changes in laws and regulations and in policies applied by banking or other regulators also could affect the Corporation's consolidated financial condition and results of operations in future periods.

**TABLE 34: MANAGED RECONCILIATION OF THE FIVE-YEAR STATISTICAL SUMMARY****RECONCILIATION OF INCOME STATEMENT DATA FOR THE PERIOD TO MANAGED NET INTEREST INCOME, MANAGED PROVISION FOR POSSIBLE CREDIT LOSSES, AND MANAGED OTHER OPERATING INCOME***(dollars in thousands)*

Year Ended December 31,	2003	2002	2001	2000	1999
<b>Net Interest Income</b>					
Net interest income	\$ 2,350,373	\$ 2,074,575	\$ 1,657,340	\$ 1,395,015	\$ 1,175,759
Securitization adjustments	7,854,265	7,044,102	6,546,802	4,442,094	4,012,042
Managed net interest income	\$ 10,204,638	\$ 9,118,677	\$ 8,204,142	\$ 5,837,109	\$ 5,187,801
<b>Provision for Possible Credit Losses</b>					
Provision for possible credit losses	\$ 1,392,701	\$ 1,340,157	\$ 1,140,615	\$ 547,309	\$ 636,614
Securitization adjustments	4,375,469	3,835,383	3,452,014	2,800,980	2,248,535
Managed provision for possible credit losses	\$ 5,768,170	\$ 5,175,540	\$ 4,592,629	\$ 3,348,289	\$ 2,885,149
<b>Other Operating Income</b>					
Other operating income	\$ 7,825,480	\$ 6,752,923	\$ 6,673,316	\$ 4,920,403	\$ 4,193,527
Securitization adjustments	(3,478,796)	(3,208,719)	(3,094,788)	(1,641,114)	(1,763,507)
Managed other operating income	\$ 4,346,684	\$ 3,544,204	\$ 3,578,528	\$ 3,279,289	\$ 2,430,020

**RECONCILIATION OF THE LOAN RECEIVABLES NET CREDIT LOSS RATIO TO THE MANAGED NET CREDIT LOSS RATIO** *(dollars in thousands)*

Year Ended December 31,	2003			2002			2001		
	Net Credit Losses (a)	Average Balance	Net Credit Loss Ratio (a)	Net Credit Losses (a)	Average Balance	Net Credit Loss Ratio (a)	Net Credit Losses (a)	Average Balance	Net Credit Loss Ratio (a)
Loan receivables (b)	\$ 1,363,696	\$ 28,183,818	4.84 %	\$ 1,156,212	\$ 25,315,200	4.57 %	\$ 855,014	\$ 20,339,388	4.20 %
Securitized loans	4,375,469	81,691,156	5.36	3,835,383	74,718,731	5.13	3,452,014	70,560,600	4.89
Managed loans	\$ 5,739,165	\$ 109,874,974	5.22	\$ 4,991,595	\$ 100,033,931	4.99	\$ 4,307,028	\$ 90,899,988	4.74
Year Ended December 31,	2000			1999					
	Net Credit Losses (a)	Average Balance	Net Credit Loss Ratio (a)	Net Credit Losses (a)	Average Balance	Net Credit Loss Ratio (a)			
Loan receivables (b)	\$ 599,642	\$ 17,718,148	3.38 %	\$ 526,488	\$ 14,422,495	3.65 %			
Securitized loans	2,800,980	59,726,838	4.69	2,248,535	49,706,760	4.52			
Managed loans	\$ 3,400,622	\$ 77,444,986	4.39	\$ 2,775,023	\$ 64,129,255	4.33			

**RECONCILIATION OF THE LOAN RECEIVABLES DELINQUENCY RATIO TO THE MANAGED DELINQUENCY RATIO** *(dollars in thousands)*

December 31,	2003			2002			2001		
	Delinquent Balances (c)	Ending Loans	Delinquency Ratio (c)	Delinquent Balances (c)	Ending Loans	Delinquency Ratio (c)	Delinquent Balances (c)	Ending Loans	Delinquency Ratio (c)
Loan receivables (b)	\$ 1,289,799	\$ 33,624,077	3.84 %	\$ 1,251,603	\$ 28,726,508	4.36 %	\$ 1,150,901	\$ 24,633,564	4.67 %
Securitized loans	3,913,851	84,869,483	4.61	3,977,908	78,531,334	5.07	3,811,560	72,862,487	5.23
Managed loans	\$ 5,203,650	\$ 118,493,560	4.39	\$ 5,229,511	\$ 107,257,842	4.88	\$ 4,962,461	\$ 97,496,051	5.09
December 31,	2000			1999					
	Delinquent Balances (c)	Ending Loans	Delinquency Ratio (c)	Delinquent Balances (c)	Ending Loans	Delinquency Ratio (c)			
Loan receivables (b)	\$ 803,680	\$ 19,954,837	4.03 %	\$ 708,751	\$ 17,663,709	4.01 %			
Securitized loans	3,182,858	68,835,884	4.62	2,508,145	54,591,804	4.59			



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Managed loans	\$ 3,986,538	\$ 88,790,721	4.49	\$ 3,216,896	\$ 72,255,513	4.45
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**TABLE 34: MANAGED RECONCILIATION OF THE FIVE-YEAR STATISTICAL SUMMARY-Continued**

**RECONCILIATION OF THE NET INTEREST MARGIN RATIO TO THE MANAGED NET INTEREST MARGIN RATIO**  
(dollars in thousands)

Year Ended December 31,	2003			2002			2001		
	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio
<b>Net Interest Margin (d)</b>									
Investment securities and money market instruments (e)	\$11,693,550			\$8,257,838			\$6,500,608		
Other interest-earning assets (e)	3,904,013			3,869,893			3,256,773		
Loan receivables (b)	28,183,818			25,315,200			20,339,388		
Total	\$43,781,381	\$2,351,132	5.37 %	\$37,442,931	\$2,075,645	5.54 %	\$30,096,769	\$1,659,023	5.51 %
<b>Securitization Adjustments</b>									
Investment securities and money market instruments	\$-			\$-			\$-		
Other interest-earning assets	(3,835,216 )			(3,808,179 )			(3,197,381 )		
Securitized loans	81,691,156			74,718,731			70,560,600		
Total	\$77,855,940	7,854,265	10.09	\$70,910,552	7,044,102	9.93	\$67,363,219	6,546,802	9.72
<b>Managed Net Interest Margin (d)</b>									
Investment securities and money market instruments (e)	\$11,693,550			\$8,257,838			\$6,500,608		
Other interest-earning assets (e)	68,797			61,714			59,392		
Managed loans	109,874,974			100,033,931			90,899,988		
Total	\$121,637,321	10,205,397	8.39	\$108,353,483	9,119,747	8.42	\$97,459,988	8,205,825	8.42
Year Ended December 31,	2000			1999					
	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio	Average Earning Assets	Net Interest Income	Net Interest Margin Ratio			
<b>Net Interest Margin (d)</b>									
Investment securities and money market instruments (e)	\$5,051,619			\$5,771,007					
Other interest-earning assets (e)	2,623,168			2,042,750					
Loan receivables (b)	17,718,148			14,422,495					
Total	\$25,392,935	\$1,397,382	5.50 %	\$22,236,252	\$1,177,691	5.30 %			
<b>Securitization Adjustments</b>									
Investment securities and money market instruments	\$-			\$-					
Other interest-earning assets	(2,592,189 )			(2,016,616 )					
Securitized loans	59,726,838			49,706,760					
Total	\$57,134,649	4,442,094	7.77	\$47,690,144	4,012,042	8.41			
<b>Managed Net Interest Margin (d)</b>									
Investment securities and money market instruments (e)	\$5,051,619			\$5,771,007					
Other interest-earning assets (e)	30,979			26,134					
Managed loans	77,444,986			64,129,255					
Total	\$82,527,584	5,839,476	7.08	\$69,926,396	5,189,733	7.42			

MBNA Corporation's net credit loss ratio is calculated by dividing annualized net credit losses, which exclude uncollectible accrued (a) interest and fees and fraud losses, for the period by average loans, which include estimated collectible billed interest and fees for the corresponding period.

(b) Loan receivables include loans held for securitization and the loan portfolio.

(c) Delinquency represents accruing loans that are 30 days or more past due.

(d) Net interest margin ratios are presented on a fully taxable equivalent basis. The fully taxable equivalent adjustment for the year ended December 31, 2003, 2002, 2001, 2000, and 1999 was \$759, \$1,070, \$1,683, \$2,367, and \$1,932, respectively.

(e) For purposes of comparability, certain prior period amounts have been reclassified.



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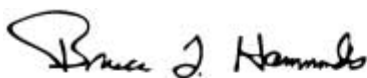
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## MANAGEMENT' S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROL

The accompanying consolidated financial statements were prepared by management, which is responsible for the integrity and objectivity of the information presented, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States, and in situations where acceptable alternative accounting principles exist, management selected the method that it believed was appropriate in the circumstances. Financial information appearing throughout this Annual Report to Stockholders is consistent with the consolidated financial statements.

Management depends upon MBNA Corporation' s systems of internal control in meeting its responsibilities for reliable consolidated financial statements. In management' s opinion, these systems provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management' s authorizations. Judgments are required to assess and balance the relative costs and expected benefits of these controls. As an integral part of the systems of internal control, the Corporation maintains a professional staff of internal auditors who conduct operational and special audits and coordinate audit coverage with the independent auditors. The consolidated financial statements have been audited by the Corporation' s independent auditors, Ernst & Young LLP, whose independent professional opinion appears separately.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the internal auditors, the independent auditors, and management to review the work of each and evaluate whether each is properly discharging its responsibilities. The independent auditors have free access to the Audit Committee to discuss the results of their audit work and their evaluations of the adequacy of internal controls and the quality of financial reporting.



Bruce L. Hammonds  
Chief Executive Officer  
MBNA Corporation



Vernon H.C. Wright  
Chief Financial Officer  
MBNA Corporation



Kevin C. Schindler  
General Auditor  
MBNA Corporation

## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
MBNA Corporation

We have audited the accompanying consolidated statements of financial condition of MBNA Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MBNA Corporation and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

Baltimore, Maryland  
January 22, 2004

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**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION** (dollars in thousands, except per share amounts)

December 31,	2003	2002
<b>Assets</b>		
Cash and due from banks	\$660,022	\$721,972
Interest-earning time deposits in other banks	3,590,329	3,703,052
Federal funds sold	1,275,000	1,645,000
Investment securities:		
Available-for-sale (amortized cost of \$4,352,069 and \$3,617,505 at December 31, 2003 and 2002, respectively)	4,363,087	3,655,808
Held-to-maturity (market value of \$354,434 and \$428,472 at December 31, 2003 and 2002, respectively)	353,299	419,760
Loans held for securitization	13,084,105	11,029,627
Loan portfolio:		
Credit card	11,910,507	9,484,115
Other consumer	8,629,465	8,212,766
Total loan portfolio	20,539,972	17,696,881
Reserve for possible credit losses	(1,216,316 )	(1,111,299 )
Net loan portfolio	19,323,656	16,585,582
Premises and equipment, net	2,676,597	2,519,101
Accrued income receivable	443,755	371,089
Accounts receivable from securitization	7,766,477	6,926,876
Intangible assets, net	3,188,368	3,188,501
Prepaid expenses and deferred charges	499,775	412,609
Other assets	1,888,885	1,677,769
Total assets	<u>\$59,113,355</u>	<u>\$52,856,746</u>
<b>Liabilities</b>		
Deposits:		
Time deposits	\$21,528,882	\$22,079,031
Money market deposit accounts	7,790,726	7,520,119
Noninterest-bearing deposits	2,419,209	915,687
Interest-bearing transaction accounts	47,334	45,414
Savings accounts	49,930	55,965
Total deposits	31,836,081	30,616,216
Short-term borrowings	1,025,463	1,250,103
Long-term debt and bank notes	12,145,628	9,538,173
Accrued interest payable	319,227	286,158
Accrued expenses and other liabilities	2,673,916	2,064,777
Total liabilities	<u>48,000,315</u>	<u>43,755,427</u>
<b>Stockholders' Equity</b>		
Preferred stock (\$.01 par value, 20,000,000 shares authorized, 8,573,882 shares issued and outstanding at December 31, 2003 and 2002)	86	86
Common stock (\$.01 par value, 1,500,000,000 shares authorized, 1,277,597,840 shares at December 31, 2003 and 1,277,671,875 shares at December 31, 2002, issued and outstanding)	12,776	12,777
Additional paid-in capital	2,119,700	2,296,568
Retained earnings	8,571,174	6,707,162
Accumulated other comprehensive income	409,304	84,726
Total stockholders' equity	<u>11,113,040</u>	<u>9,101,319</u>
Total liabilities and stockholders' equity	<u>\$59,113,355</u>	<u>\$52,856,746</u>

The accompanying notes are an integral part of the consolidated financial statements.



**CONSOLIDATED STATEMENTS OF INCOME** (dollars in thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001
<b>Interest Income</b>			
Loan portfolio	\$2,216,256	\$2,037,454	\$1,793,145
Loans held for securitization	1,112,977	1,056,558	998,881
Investment securities:			
Taxable	110,370	134,411	161,013
Tax-exempt	1,417	1,895	3,124
Time deposits in other banks	79,259	53,133	71,341
Federal funds sold	33,137	35,460	56,651
Other interest income	305,468	359,159	387,250
Total interest income	3,858,884	3,678,070	3,471,405
<b>Interest Expense</b>			
Deposits	1,107,806	1,255,527	1,444,706
Short-term borrowings	39,132	42,978	24,766
Long-term debt and bank notes	361,573	304,990	344,593
Total interest expense	1,508,511	1,603,495	1,814,065
<b>Net Interest Income</b>	<b>2,350,373</b>	<b>2,074,575</b>	<b>1,657,340</b>
Provision for possible credit losses	1,392,701	1,340,157	1,140,615
Net interest income after provision for possible credit losses	957,672	734,418	516,725
<b>Other Operating Income</b>			
Securitization income	6,523,956	5,666,352	5,722,324
Interchange	391,827	357,410	300,957
Credit card fees	513,605	385,422	295,101
Other consumer loan fees	108,226	100,862	92,447
Insurance	231,941	181,474	145,338
Other	55,925	61,403	117,149
Total other operating income	7,825,480	6,752,923	6,673,316
<b>Other Operating Expense</b>			
Salaries and employee benefits	2,083,120	1,947,389	1,821,293
Occupancy expense of premises	176,114	171,989	159,075
Furniture and equipment expense	351,501	334,287	304,032
Other	2,513,412	2,248,260	2,190,431
Total other operating expense	5,124,147	4,701,925	4,474,831
<b>Income Before Income Taxes</b>	<b>3,659,005</b>	<b>2,785,416</b>	<b>2,715,210</b>
Applicable income taxes	1,320,901	1,019,462	1,020,919
<b>Net Income</b>	<b>\$2,338,104</b>	<b>\$1,765,954</b>	<b>\$1,694,291</b>
<b>Earnings Per Common Share</b>			
<b>Earnings Per Common Share</b>	<b>\$1.82</b>	<b>\$1.37</b>	<b>\$1.31</b>
<b>Earnings Per Common Share—Assuming Dilution</b>	<b>1.79</b>	<b>1.34</b>	<b>1.28</b>
<b>Dividends Per Common Share</b>	<b>.36</b>	<b>.27</b>	<b>.24</b>

The accompanying notes are an integral part of the consolidated financial statements.



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**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY** (dollars in thousands, except per share amounts)

**Outstanding Shares**

	Preferred (000)	Common (000)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
<b>Balance, December 31, 2000</b>	8,574	1,277,706	\$ 86	\$ 12,777	\$ 2,721,691	\$ 3,931,248	\$ (38,524)	\$ 6,627,278
Comprehensive income:								
Net income	-	-	-	-	-	1,694,291	-	1,694,291
Foreign currency translation, net of tax (accumulated amount of \$(75,940) at December 31, 2001)	-	-	-	-	-	-	(28,984)	(28,984)
Net unrealized gains on investment securities available-for-sale and other financial instruments, net of tax (accumulated gain of \$27,507 at December 31, 2001)	-	-	-	-	-	-	19,075	19,075
Other comprehensive income, net of tax	-	-	-	-	-	-	-	(9,909)
Comprehensive income	-	-	-	-	-	-	-	1,684,382
Cash dividends:								
Common—\$.24 per share	-	-	-	-	-	(306,672)	-	(306,672)
Preferred	-	-	-	-	-	(14,142)	-	(14,142)
Exercise of stock options and other awards	-	15,833	-	158	83,874	-	-	84,032
Stock-based compensation tax benefit	-	-	-	-	68,580	-	-	68,580
Amortization of deferred compensation expense	-	-	-	-	31,355	-	-	31,355
Acquisition and retirement of common stock	-	(15,867)	-	(158)	(375,937)	-	-	(376,095)
<b>Balance, December 31, 2001</b>	8,574	1,277,672	86	12,777	2,529,563	5,304,725	(48,433)	7,798,718
Comprehensive income:								
Net income	-	-	-	-	-	1,765,954	-	1,765,954
Foreign currency translation, net of tax (accumulated amount of \$64,817 at December 31, 2002)	-	-	-	-	-	-	140,757	140,757
Net unrealized losses on investment securities available-for-sale and other financial instruments, net of tax (accumulated gain of \$24,185 at December 31, 2002)	-	-	-	-	-	-	(3,322)	(3,322)
Minimum benefit plan liability adjustment, net of tax (accumulated amount of \$(4,276) at December 31, 2002)	-	-	-	-	-	-	(4,276)	(4,276)
Other comprehensive income, net of tax	-	-	-	-	-	-	-	133,159
Comprehensive income	-	-	-	-	-	-	-	1,899,113
Cash dividends:								
Common—\$.27 per share	-	-	-	-	-	(349,339)	-	(349,339)
Preferred	-	-	-	-	-	(14,178)	-	(14,178)
Exercise of stock options and other awards	-	25,521	-	255	138,167	-	-	138,422
Stock-based compensation tax benefit	-	-	-	-	149,914	-	-	149,914
Amortization of deferred compensation expense	-	-	-	-	94,172	-	-	94,172
Acquisition and retirement of common stock	-	(25,521)	-	(255)	(615,248)	-	-	(615,503)
<b>Balance, December 31, 2002</b>	8,574	1,277,672	86	12,777	2,296,568	6,707,162	84,726	9,101,319
Comprehensive income:								
Net income	-	-	-	-	-	2,338,104	-	2,338,104
Foreign currency translation, net of tax (accumulated amount of \$417,617 at December 31, 2003)	-	-	-	-	-	-	352,800	352,800
Net unrealized losses on investment securities available-for-sale and other financial instruments, net of tax (accumulated gain of \$6,901 at December 31, 2003)	-	-	-	-	-	-	(17,284)	(17,284)
Minimum benefit plan liability adjustment, net of tax (accumulated amount of \$(15,214) at December 31, 2003)	-	-	-	-	-	-	(10,938)	(10,938)
Other comprehensive income, net of tax	-	-	-	-	-	-	-	324,578

Comprehensive income								2,662,682
Cash dividends:								
Common—\$.36 per share	-	-	-	-	-	(460,028 )	-	(460,028 )
Preferred	-	-	-	-	-	(14,064 )	-	(14,064 )
Exercise of stock options and other awards	-	29,152	-	291	275,502	-	-	275,793
Stock-based compensation tax benefit	-	-	-	-	77,915	-	-	77,915
Issuance of common stock, net of issuance costs	-	50,000	-	500	1,081,686	-	-	1,082,186
Amortization of deferred compensation expense	-	-	-	-	88,061	-	-	88,061
Acquisition and retirement of common stock	-	(79,226 )	-	(792 )	(1,700,032)	-	-	(1,700,824)
<b>Balance, December 31, 2003</b>	<b>8,574</b>	<b>1,277,598</b>	<b>\$ 86</b>	<b>\$ 12,776</b>	<b>\$ 2,119,700</b>	<b>\$ 8,571,174</b>	<b>\$ 409,304</b>	<b>\$ 11,113,040</b>

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS** (dollars in thousands)

Year Ended December 31,	2003	2002	2001
<b>Operating Activities</b>			
Net income	\$ 2,338,104	\$ 1,765,954	\$ 1,694,291
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for possible credit losses	1,392,701	1,340,157	1,140,615
Depreciation, amortization, and accretion	861,459	779,638	715,386
Benefit for deferred income taxes	(1,980 )	(151,707 )	(111,267 )
(Increase) decrease in accrued income receivable	(57,524 )	5,282	(64,944 )
(Increase) decrease in accounts receivable from securitization	(698,229 )	602,160	(418,375 )
Increase (decrease) in accrued interest payable	23,700	53,861	(10,468 )
Decrease (increase) in other operating activities	9,570	389,809	(13,342 )
Net cash provided by operating activities	3,867,801	4,785,154	2,931,896
<b>Investing Activities</b>			
Net decrease (increase) in money market instruments	622,732	(2,271,289 )	(842,624 )
Proceeds from maturities of investment securities available-for-sale	1,802,968	1,054,876	1,673,341
Proceeds from sale of investment securities available-for-sale	-	13,126	505
Purchases of investment securities available-for-sale	(2,520,608 )	(1,606,729 )	(2,119,000 )
Proceeds from maturities of investment securities held-to-maturity	89,741	45,752	33,280
Purchases of investment securities held-to-maturity	(23,016 )	(81,596 )	(78,662 )
Proceeds from securitization of loans	13,598,329	15,373,055	12,329,830
Loan portfolio acquisitions	(2,232,049 )	(4,479,966 )	(1,301,628 )
Increase in loans due to principal payments to investors in the Corporation' s securitization transactions	(8,542,510 )	(10,195,864)	(8,277,644 )
Net loan originations	(8,427,255 )	(6,294,442 )	(8,615,423 )
Net purchases of premises and equipment	(414,833 )	(551,208 )	(691,567 )
Net cash used in investing activities	(6,046,501 )	(8,994,285 )	(7,889,592 )
<b>Financing Activities</b>			
Net increase in money market deposit accounts, noninterest-bearing deposits, interest-bearing transaction accounts, and savings accounts	1,739,818	1,214,202	1,430,101
Net (decrease) increase in time deposits	(629,721 )	2,161,613	1,353,297
Net (decrease) increase in short-term borrowings	(264,713 )	(524,606 )	1,626,185
Proceeds from issuance of long-term debt and bank notes	3,320,585	3,749,413	2,043,964
Maturity of long-term debt and bank notes	(1,270,574 )	(1,803,816 )	(900,757 )
Proceeds from exercise of stock options and other awards	275,793	138,422	84,032
Acquisition and retirement of common stock	(1,700,824 )	(615,503 )	(376,095 )
Proceeds from issuance of common stock	1,082,186	-	-
Dividends paid	(435,800 )	(350,740 )	(312,382 )
Net cash provided by financing activities	2,116,750	3,968,985	4,948,345
<b>Decrease in Cash and Cash Equivalents</b>	(61,950 )	(240,146 )	(9,351 )
Cash and cash equivalents at beginning of year	721,972	962,118	971,469
Cash and cash equivalents at end of year	\$ 660,022	\$ 721,972	\$ 962,118
<b>Supplemental Disclosures</b>			
Interest expense paid	\$ 1,524,959	\$ 1,589,080	\$ 1,869,919
Income taxes paid	\$ 1,002,682	\$ 1,020,878	\$ 892,519

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: BUSINESS AND BASIS OF PRESENTATION

MBNA Corporation (“the Corporation”) is a registered bank holding company, incorporated under the laws of Maryland. It is the parent company of MBNA America Bank, N.A. (“the Bank”), a national bank and the Corporation’s principal subsidiary. The Bank has two wholly owned foreign bank subsidiaries, MBNA Europe Bank Limited (“MBNA Europe”), located in the United Kingdom, and MBNA Canada Bank (“MBNA Canada”), located in Canada. Through the Bank, the Corporation is the largest independent credit card lender in the world and is the leading issuer of credit cards, through endorsed marketing. In addition to its credit card lending, the Corporation also makes other consumer loans which include installment and revolving unsecured loan products and offers insurance and deposit products. The Corporation is also the parent of MBNA America (Delaware), N.A. (“MBNA Delaware”), a national bank, which offers business card products, mortgage loans, aircraft loans, and other specialty loan products.

The accompanying audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) that require management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. These estimates are based on information available as of the date of the consolidated financial statements. Therefore, actual results could differ from these estimates.

For purposes of comparability, certain prior period amounts have been reclassified to conform with the 2003 presentation.

### NOTE 2: PRINCIPLES OF CONSOLIDATION

The accompanying audited consolidated financial statements include, after intercompany elimination, the accounts of all subsidiaries of the Corporation, all of which are wholly owned.

The Corporation securitizes its loan principal receivables through trusts that qualify as special-purpose entities as defined by Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125” (“Statement No. 140”), issued by the Financial Accounting Standards Board (“FASB”). In January 2003, FASB Interpretation No. 46 “Consolidation of Variable Interest Entities” (“Interpretation No. 46”) was issued. Interpretation No. 46 clarified the rules for consolidation by an investor entity for which the investor’s ownership interest changes with changes in the entity’s net asset value. The Corporation’s securitization trusts are specifically exempted from the requirements of Interpretation No. 46 since they are qualified special-purpose entities as defined by Statement No. 140. As a result, the trusts are not subsidiaries of

The Corporation also holds Community Development investments in the form of limited partnership interests that qualify under the Community Reinvestment Act. The Corporation holds less than 50% interests in these partnerships and does not control the limited partnerships. The Corporation determined that these partnerships are variable interest entities as defined by Interpretation No. 46. Interpretation No. 46 requires consolidation of a variable interest entity by the primary beneficiary of that entity. The Corporation determined that it is not the primary beneficiary of the limited partnerships, therefore they are not consolidated and are excluded from the Corporation’s audited consolidated financial statements in accordance with GAAP. The Corporation’s investments in these limited partnerships are recorded in other assets in the Corporation’s audited consolidated statements of financial condition.

In the third quarter of 2003, the Corporation determined that MBNA Capital A, MBNA Capital B, MBNA Capital C, MBNA Capital D, and MBNA Capital E (collectively the “statutory trusts”), were variable interest entities as defined by Interpretation No. 46 and the Corporation was not the primary beneficiary. As a result, the statutory trusts were deconsolidated effective July 1, 2003. The deconsolidation of the statutory trusts increased long-term debt and bank notes and the investment in variable interest entities, which is recorded in other assets in the Corporation’s audited consolidated statements of financial condition.

### NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

#### INVESTMENT SECURITIES

Investment securities include both those available-for-sale and those held-to-maturity. Investment securities available-for-sale are reported at market value with unrealized gains and losses, net of tax, reported as a component of other comprehensive income included in stockholders’ equity. Investment securities held-to-maturity are reported at cost (adjusted for amortization of premiums and accretion of discounts). Realized gains and losses and other-than-temporary impairments related to investment securities are determined using the specific identification method and are reported in other operating income as gains or losses on investment securities. The Corporation does not hold investment securities for trading purposes.

#### ASSET SECURITIZATION

Asset securitization involves the sale to a trust of a pool of loan principal receivables and is accomplished through the public and private issuance of asset-backed securities. The Corporation removes loan principal receivables from the Corporation’s consolidated statements of financial condition for those asset securitizations that qualify as sales in accordance with Statement

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the Corporation and are excluded from the Corporation' s audited consolidated financial statements in accordance with GAAP.

No. 140. Earnings on the Corporation' s securitized loans, including gains from securitizations, are included in securitization income

and other interest income in the Corporation's audited consolidated statements of income, and amounts due from the trusts and the Corporation's retained interests are included in accounts receivable from securitization in the Corporation's audited consolidated statements of financial condition.

The trusts are qualified special-purpose entities as defined under Statement No. 140. To meet the criteria to be considered a qualifying special-purpose entity, a trust must be demonstrably distinct from the Corporation and have activities that are significantly limited and entirely specified in the legal documents that established the trust. The Corporation cannot change the activities that the trust can perform. These activities may only be changed by a majority of the beneficial interest holders not including the Corporation. The trusts are administered by an independent trustee.

### **LOANS HELD FOR SECURITIZATION**

Loans held for securitization includes loans that were originated through certain endorsing organizations or financial institutions who have the contractual right to purchase the loans from the Corporation at fair value and the lesser of loan principal receivables eligible for securitization or sale, or loan principal receivables that management intends to securitize or sell within one year. These loans are carried at the lower of aggregate cost or fair value.

### **RESERVE FOR POSSIBLE CREDIT LOSSES**

The Corporation maintains the reserve for possible credit losses at an amount sufficient to absorb losses inherent in the Corporation's loan principal receivables at the reporting date based on a projection of probable net credit losses. To project probable net credit losses, the Corporation regularly performs a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through the various delinquency stages and ultimately charge off. On a quarterly basis, the Corporation reviews and adjusts, as appropriate, these estimates. The Corporation's projection of probable net credit losses considers the impact of economic conditions on the borrowers' ability to repay, past collection experience, the risk characteristics and composition of the portfolio, and other factors. The Corporation then reserves for the projected probable net credit losses based on its projection of these amounts. The Corporation establishes appropriate levels of the reserve for possible credit losses for its products, including domestic credit card, domestic other consumer and foreign loans, based on their risk characteristics. A provision is charged against earnings to maintain the reserve for possible credit losses at an appropriate level. The Corporation records acquired reserves for current period loan acquisitions.

The Corporation works with Customers continually at each stage of delinquency. The Corporation's policy is to charge off open-end delinquent retail loans by the end of the month in which the account becomes 180 days contractually past due and closed-end

delinquent retail loans by the end of the month in which they become 120 days contractually past due. Delinquent bankrupt accounts are charged off the end of the second calendar month following receipt of notification of filing from the applicable court, but not later than the applicable 180-day or 120-day timeframes described above. Accounts of deceased Customers are charged off when the loss is determined, but not later than the applicable 180-day or 120-day timeframes described above. Accounts failing to make a payment within charge-off policy timeframes are written off. Managers may on an exception basis defer charge off of an account for another month, pending continued payment activity or other special circumstances. Senior manager approval is required on all such exceptions to the above charge-off policies.

The reserve for possible credit losses is a general allowance applicable to the Corporation's loan receivables and does not include an allocation for credit risk related to securitized loans. Net credit losses on securitized loans are absorbed directly by the related trusts under their respective contractual agreements and do not affect the reserve for possible credit losses.

### **DELINQUENT LOANS**

The entire balance of an account is contractually delinquent if the minimum payment is not received by the specified date on the Customer's billing statement. Interest and fees continue to accrue on the Corporation's delinquent loans. Delinquency is reported on accruing loans that are 30 or more days past due.

### **NONACCRUAL LOANS**

On a case-by-case basis, management determines if an account should be placed on nonaccrual status. When loans are classified as nonaccrual, the accrual of interest ceases. In future periods, when a payment is received, it is recorded as a reduction of principal.

### **LOAN RECEIVABLE FRAUD LOSSES**

The Corporation incurs loan receivable fraud losses from the unauthorized use of Customer accounts and counterfeiting. These fraudulent transactions, when identified, are reclassified to other assets from loans and reduced to estimated net recoverable values through a charge to other operating expense.

### **PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost less accumulated depreciation, computed by the straight-line method over the estimated useful lives of the assets.

Buildings are depreciated over a period of 40 years and improvements are depreciated over the shorter of eight years or the remaining useful lives of the buildings that they relate to. Furniture and equipment are depreciated over a range of three years through eight years. Maintenance and repairs are included in other operating expense, while the cost of improvements is capitalized. Land is not depreciated.



## Capitalized Software

Purchased software and capitalized costs related to internally developed software are stated at cost less accumulated amortization, computed using the straight-line method over the estimated useful life of the assets which range from three years through five years. Costs incurred during the application development stage related to internally developed software are capitalized in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Costs incurred during the preliminary project stage and the post implementation stage are expensed as incurred. Capitalized software is included in premises and equipment in the Corporation's audited consolidated statements of financial condition.

Effective January 1, 2003, the Corporation reclassified capitalized software from other assets to premises and equipment in the Corporation's audited consolidated statements of financial condition and reclassified computer software expense, which includes amortization of capitalized software, from the other expense component of other operating expense to furniture and equipment expense in the Corporation's audited consolidated statements of income. Capitalized software was \$461.3 million (net of accumulated amortization of \$271.9 million) and \$330.5 million (net of accumulated amortization of \$216.2 million) at December 31, 2003, and 2002, respectively. Computer software expense, including amortization of capitalized software, was \$127.3 million, \$101.6 million, and \$83.2 million for the years ended December 31, 2003, 2002, and 2001, respectively. For purposes of comparability, prior period amounts have been reclassified.

## INTANGIBLE ASSETS

The Corporation's intangible assets include purchased credit card relationships ("PCCRs") which are carried at net book value. The Corporation records these intangible assets as part of the acquisition of credit card loans and the corresponding Customer relationships. The Corporation's intangible assets are amortized over the period the assets are expected to contribute to the cash flows of the Corporation which reflect the expected pattern of benefit. PCCRs are amortized using an accelerated method based upon the projected cash flows the Corporation will receive from the Customer relationships during the estimated useful lives of the PCCRs.

The Corporation's PCCRs are subject to impairment tests in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement No. 144"). The Corporation reviews the carrying value of its PCCRs for impairment on a quarterly basis, or sooner whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, by comparing their carrying value to the sum of the undiscounted expected future cash

of the PCCRs to estimated fair value based on the discounted future cash flows expected from the PCCRs. The Corporation performs the impairment test on a specific portfolio basis, since it represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities.

The Corporation makes certain estimates and assumptions that affect the determination of the expected future cash flows from the loans and corresponding credit card relationships. These estimates and assumptions include levels of account usage and activation, active account attrition, funding costs, credit loss experience, servicing costs, growth in average account balances, interest and fees assessed on loans, and other factors. Significant changes in these estimates and assumptions could result in an impairment of the PCCRs.

Prior to 2002, the Corporation amortized the value of domestic PCCRs over a period of 10 years. In the first quarter of 2002, the Corporation completed a statistical study of the useful lives of its acquired domestic PCCRs. As a result of the study, effective January 1, 2002, the Corporation extended the amortization period of its domestic PCCRs to 15 years to more appropriately match the amortization period with the domestic PCCRs' estimated useful lives. The Corporation is amortizing the remaining carrying amount as of December 31, 2001 of the domestic PCCRs over the revised remaining amortization period.

As a result of the change in the amortization period for domestic PCCRs, the Corporation's 2002 income before income taxes increased \$100.5 million (\$63.7 million after taxes). Excluding the change in the amortization period of the domestic PCCRs, the Corporation's earnings per common share would have been \$1.32 and earnings per common share—assuming dilution would have been \$1.30 in 2002.

Prior to 2003, the Corporation amortized the value of its foreign PCCRs over a period of 10 years. Effective January 1, 2003, the Corporation extended the amortization period for its foreign PCCRs to 15 years to more appropriately match the amortization period with the foreign PCCRs' estimated useful lives. The change in estimate did not have a material impact on the Corporation's financial condition or results of operations for the year ended December 31, 2003.

The Corporation's intangible assets had a gross carrying value of \$4.9 billion at December 31, 2003 and \$4.5 billion at December 31, 2002, and accumulated amortization of \$1.7 billion and \$1.3 billion at December 31, 2003 and 2002, respectively. In 2003, the Corporation acquired approximately \$1.5 billion of credit card loan receivables. As part of these acquisitions, the Corporation recognized \$329.3 million of PCCRs.

The Corporation's intangible asset amortization expense was \$411.0 million, \$348.7 million, and \$381.8 million for the years ended December 31, 2003, 2002, and 2001, respectively.



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flows from the loans and corresponding credit card relationships. In accordance with Statement No. 144, an impairment exists if the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset. An impairment would result in a write-down

There were no impairment write-downs of intangible assets for the years ended December 31, 2003 and 2002 and no material impairment write-downs for the year ended December 31, 2001.

The following table presents expected intangible asset amortization expense for the next five years.

### EXPECTED INTANGIBLE ASSET AMORTIZATION

(dollars in thousands)

2004	\$	428,610
2005		402,419
2006		361,889
2007		321,905
2008		289,745

### PREPAID EXPENSES AND DEFERRED CHARGES

The principle components of prepaid expenses and deferred charges include unamortized direct loan origination costs, unamortized debt issuance costs, prepaid employee benefit plan costs, and commissions paid on brokered certificates of deposit. These costs are deferred and amortized over the period the Corporation receives a benefit or the remaining term of the liability. Prepaid expenses and deferred charges also include royalties advanced to the Corporation's endorsing organizations (see "Royalties to Endorsing Organizations" for further discussion).

### COMPREHENSIVE INCOME

The Corporation accounts for comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("Statement No. 130"). Statement No. 130 established standards for the reporting and presentation of comprehensive income in the financial statements. The Corporation presents comprehensive income in its audited consolidated statements of changes in stockholders' equity, net of related income taxes.

### INCOME TAXES

The Corporation accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized.

### STOCK-BASED EMPLOYEE COMPENSATION

The Corporation has two stock-based employee compensation plans, which are more fully described in Note 23: Stock-Based Employee Compensation. The Corporation measures compensation cost for employee stock options and similar instruments using the intrinsic-value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), as interpreted by FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("Interpretation No. 44"). All options are granted with an exercise price that is not less than the fair market value of the Corporation's Common Stock on the date the option is granted. For grants of restricted shares of common stock, the market value of restricted shares at the date of grant is amortized into expense over a 10 year period that approximates the restriction period, or less if the restricted shares had a specific vesting date less than 10 years from the date of grant.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("Statement No. 123"), as amended, defines a fair-value-based method of accounting for an employee stock option or similar equity instrument. However, it allows an entity to continue to measure compensation cost for those instruments using the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25. As permitted by Statement No. 123, the Corporation elected to retain the intrinsic-value-based method of accounting for employee stock option grants in accordance with APB Opinion No. 25. Statement No. 123 required certain additional disclosures about stock-based employee compensation arrangements regardless of the method used to account for them. In accordance with Statement No. 123, the Black-Scholes option pricing model is one technique allowed to determine the fair value of employee stock options. The model uses different assumptions that can significantly affect the fair value of the employee stock options and the derived fair value estimates cannot be substantiated by comparison to independent markets.

The following table presents the effect on net income and earnings per common share as required by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based

### PRO FORMA NET INCOME AND EARNINGS PER COMMON SHARE (dollars in thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001
<b>Net Income</b>			
As reported	\$ 2,338,104	\$ 1,765,954	\$ 1,694,291
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	56,271	59,705	19,565
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(130,191 )	(134,115 )	(94,889 )
<i>Pro forma</i>	<u>\$ 2,264,184</u>	<u>\$ 1,691,544</u>	<u>\$ 1,618,967</u>

**Earnings Per Common Share**

As reported	\$ 1.82	\$ 1.37	\$ 1.31
<i>Pro forma</i>	<b>1.76</b>	1.31	1.26

**Earnings Per Common Share—****Assuming Dilution**

As reported	<b>1.79</b>	1.34	1.28
<i>Pro forma</i>	<b>1.74</b>	1.29	1.23

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Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123" ("Statement No. 148"), if the Corporation had applied the fair value recognition provisions of Statement No. 123 to options-based employee compensation.

The Corporation estimated the fair value of each employee stock option grant on the date of grant. The weighted average assumptions used in the Black-Scholes option pricing model for grants in 2003, 2002, and 2001, were: dividend yield of 1.11%, 1.10%, and 1.08%, expected volatility of 35.98%, 34.21%, and 34.00%, and a risk-free interest rate of 3.20%, 4.50%, and 4.61%, respectively. The weighted average expected life was 5.4 years for 2003, 2002, and 2001.

### FOREIGN CURRENCY TRANSLATION

The financial statements of the Corporation's foreign subsidiaries have been translated into U.S. dollars in accordance with GAAP. Assets and liabilities have been translated using the exchange rate at year-end. Income and expense amounts have been translated using the exchange rate for the period in which the transaction took place. The translation gains and losses resulting from the change in exchange rates have been reported as a component of accumulated other comprehensive income included in stockholders' equity, net of tax.

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation utilizes certain derivative financial instruments to enhance its ability to manage interest rate risk and foreign currency exchange rate risk that exist as part of its ongoing business operations. Derivative financial instruments are entered into for periods that match the related underlying exposures and do not constitute positions independent of these exposures. The Corporation does not enter into derivative financial instruments for trading purposes, nor is it a party to any leveraged derivative financial instruments. The Corporation can designate derivative financial instruments as either fair value hedges, cash flow hedges, or hedges of net investments. The Corporation also has derivative financial instruments that are not designated as accounting hedges, which reduce its exposure to foreign currency exchange rate risk.

For fair value hedges, the Corporation accounts for changes in the fair value of the derivative and the change in the fair value of the hedged item for the hedged risk as a component of other operating income on the Corporation's audited consolidated statements of income. The Corporation does not have cash flow hedges or hedges of net investments. For derivative financial instruments that are not designated as accounting hedges, the change in fair value is reported in other operating income in the Corporation's audited consolidated statements of income. The fair value of derivative assets and liabilities are included gross as a component of other assets or accrued expenses and other liabilities, respectively, in the Corporation's audited consolidated statements of financial

Net interest income or net interest expense related to outstanding interest rate swap agreements are accrued and recognized in earnings as an adjustment to the related interest income or interest expense of the hedged asset/liability over the term of the hedging relationship. In the event an interest rate swap is terminated prior to its contractual maturity, the remaining unamortized gain or loss included in the carrying amount of the hedged item will be amortized over the remaining life of the hedged item as an adjustment to the yield on the asset/liability.

### REVENUE RECOGNITION

Interest income is recognized based upon the amount of loans outstanding and their contractual annual percentage rates. Interest income is included in loan receivables when billed to the Customer. The Corporation accrues unbilled interest income on a monthly basis from the Customer's statement billing cycle date to the end of the month. The Corporation uses certain estimates and assumptions (for example, estimated yield) in the determination of the accrued unbilled portion of interest income that is included in accrued income receivable in the Corporation's audited consolidated statements of financial condition. The Corporation also uses certain assumptions and estimates in the valuation of accrued interest on securitized loans which is included in accounts receivable from securitization in the Corporation's audited consolidated statements of financial condition.

The Corporation also recognizes fees (except annual fees) on loan receivables in earnings as the fees are assessed according to agreements with the Corporation's Customers. Credit card and other consumer loan fees include annual, late, overlimit, returned check, cash advance, express payment, and other miscellaneous fees. These fees are included in the Corporation's loan receivables when billed. Annual fees on loan receivables and incremental direct loan origination costs are deferred and amortized on a straight-line basis over the one-year period to which they pertain. The Corporation does not charge an annual fee during the first year the account is originated. The deferred annual fees are included in accrued expenses and other liabilities in the Corporation's audited consolidated statements of financial condition. Incremental direct loan origination costs are deferred only in the first year and are included in prepaid expenses and deferred charges. At December 31, 2003 and 2002, the incremental direct loan origination costs deferred were \$78.8 million and \$58.8 million, respectively. The Corporation expenses marketing costs as incurred.

The Corporation adjusts the amount of interest income and fee income recognized in the current period for its estimate of interest and fee income that it does not expect to collect in subsequent periods through adjustments to the respective income statement captions, loan receivables, and accrued income receivable. The estimate of uncollectible interest and fees is based on a migration analysis of delinquent and current loan receivables that will

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condition. For fair value hedges, the change in the fair value of the hedged item related to the hedged risk is included as part of the carrying value of the related asset or liability in the Corporation's audited consolidated statements of financial condition.

progress through the various delinquency stages and ultimately charge off. The Corporation also adjusts the estimated value of

accrued interest and fees on securitized loans for the amount of uncollectible interest and fees that are not expected to be collected through an adjustment to accounts receivable from securitization and securitization income. This estimate is also based on a migration analysis of delinquent and current securitized loans that will progress through the various delinquency stages and ultimately charge off.

Prior to September 2002, the Corporation accrued interest and fees on loan receivables until the loan receivables were paid or charged off. When loan receivables were charged off, the Corporation deducted the accrued interest and fees related to the loan receivables against current period income. In September 2002, the Corporation implemented the Federal Financial Institutions Examination Council (“FFIEC”) guidance for uncollectible accrued interest and fees for its managed loan portfolio. As a result, the Corporation changed its estimate of the value of accrued interest and fees in September 2002.

In accordance with Accounting Principles Board Opinion No. 20, “Accounting Changes” (“Opinion No. 20”), the change in the estimated value of accrued interest and fees was recorded as a change in accounting estimate in the third quarter of 2002. The change in the estimated value of accrued interest and fees resulted in a decrease to income before income taxes of \$263.7 million (\$167.2 million after taxes), through a reduction of \$66.3 million of interest income and \$197.4 million of other operating income. The Corporation’s earnings per common share and earnings per common share—assuming dilution for the year ended December 31, 2002 would have been \$1.50 and \$1.47, respectively, excluding the change. The difference between the amounts of interest and fees the Corporation was contractually entitled to and the amounts recognized as revenue was \$1.2 billion, \$1.4 billion, and \$858.3 million for the years ended December 31, 2003, 2002, and 2001, respectively.

## INTERCHANGE INCOME

Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network as compensation for risk, grace period, and other operating costs. Such fees are set annually by MasterCard International Incorporated and Visa U.S.A. Incorporated and are based on cardholder sales volumes. The Corporation recognizes interchange income as earned.

The Corporation offers to its Customers certain reward programs based on charge volumes. The costs of these reward programs related to loan receivables are deducted from interchange income. The costs of the reward programs related to securitized loans are deducted from securitization income.

## INSURANCE INCOME

The Corporation’s insurance income primarily relates to fees received for marketing credit related life and disability insurance and credit protection products. The amount of insurance income recorded is based on the terms of insurance policies and credit

## ROYALTIES TO ENDORSING ORGANIZATIONS

The Corporation has agreements with thousands of organizations that endorse its loan and deposit products. The organizations grant to the Corporation exclusive rights to market its products to the organizations’ members or customers and provide their endorsements and mailing lists. Some organizations, such as financial institutions, also conduct marketing activities for the Corporation. The Corporation’s endorsing agreements normally have a term of five years. The economic incentives the Corporation pays to the endorsing organizations typically include payments based on new accounts, activation, and revenue sharing.

The Corporation accounts for the portion of its payments to endorsing organizations for new accounts that relate to account originations as direct loan origination costs. The Corporation defers these costs and amortizes them over 12 months. The Corporation accounts for payments to endorsing organizations for marketing efforts they perform on its behalf to activate a new account after the account has been originated as other expenses as incurred. The Corporation accounts for revenue sharing payments as it earns the related revenues. The Corporation deducts these payments related to loan receivables from interest income and payments related to securitized loans from securitization income since it considers them a reduction of the revenue recognized.

The Corporation, in some cases, advances future compensation to be earned by an endorsing organization. The Corporation recognizes advances to an endorsing organization as the organization earns the royalties or over the term of the agreement using the straight-line method, whichever method results in greater amortization of the advance.

## STATEMENTS OF CASH FLOWS

The Corporation has presented the audited consolidated statements of cash flows using the indirect method, which involves the reconciliation of net income to net cash flow from operating activities. In addition, the Corporation nets certain cash receipts and cash payments related to deposits placed with and withdrawn from other financial institutions; time deposits accepted and repayments of those deposits; and loans made to Customers and principal collections of those loans. For purposes of the audited consolidated statements of cash flows, cash and cash equivalents include cash and due from banks.

## NOTE 4: NEW ACCOUNTING PRONOUNCEMENT

In January 2003, Interpretation No. 46 was issued. In accordance with Interpretation No. 46, the Corporation has determined that MBNA Capital A (registered December 1996), MBNA Capital B (registered January 1997), MBNA Capital C (registered March 1997), MBNA Capital D (registered June 2002), and MBNA Capital E (registered November 2002) (collectively the “statutory trusts”), are variable interest entities and that the Corporation is not the primary beneficiary. The Corporation would not absorb a

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protection products. The Corporation recognizes insurance income over the policy or contract period as earned.

majority of the statutory trusts' expected losses if they were to occur. Effective July 1, 2003 the Corporation adopted Interpretation

No. 46 and the statutory trusts were deconsolidated. The Corporation is the owner of all the beneficial ownership interests represented by the common securities of the statutory trusts. The statutory trusts exist for the sole purpose of issuing the series capital securities to investors and the series common securities to the Corporation and investing the proceeds in junior subordinated deferrable interest debentures issued by the Corporation. At July 1, 2003 the statutory trusts had series common securities of \$32.9 million and series capital securities of \$1.1 billion. The deconsolidation of the statutory trusts increased long-term debt and bank notes and the investment in variable interest entities by \$32.9 million, which is included in other assets. These capital securities currently qualify as regulatory capital for the Corporation.

#### NOTE 5: CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and due from banks. The Bank is required by the Federal Reserve Bank to maintain cash reserves against certain categories of average deposit liabilities. During 2003 and 2002, the average amount of these reserves was approximately \$1.9 million and \$4.7 million, respectively, after deducting currency and coin holdings.

#### NOTE 6: INTEREST-EARNING TIME DEPOSITS IN OTHER BANKS

Included in the Corporation's interest-earning time deposits were \$30.6 million and \$31.3 million at December 31, 2003 and 2002, respectively, which were collateralizing advances provided by an underwriter of MBNA Europe's securitization transactions. Also, at December 31, 2003, there were \$28.5 million of interest-earning time deposits which were collateralizing MBNA Europe's derivative financial instruments.

#### NOTE 7: INVESTMENT SECURITIES

For the year ended December 31, 2003, the Corporation wrote-off investment securities held-to-maturity resulting in a realized loss of \$131,000 (\$84,000 after taxes). For the year ended December 31, 2002, the Corporation sold investment securities available-for-sale resulting in a realized loss of \$95,000 (\$62,000

#### UNREALIZED LOSSES ON INVESTMENT SECURITIES (dollars in thousands)

#### ESTIMATED MATURITIES OF INVESTMENT SECURITIES (dollars in thousands)

December 31, 2003	Amortized Cost	Market Value
<b>Investment Securities Available-for-Sale</b>		
Domestic:		
Due within one year	\$ 1,590,148	\$ 1,597,249
Due after one year through five years	2,276,402	2,280,532
Due after five years through ten years	57,313	57,388
Due after ten years	166	165
Total domestic investment securities available-for-sale	3,924,029	3,935,334
Foreign:		
Due within one year	91,688	91,750
Due after one year through five years	336,352	336,003
Total foreign investment securities available-for-sale	428,040	427,753
Total investment securities available-for-sale	\$ 4,352,069	\$ 4,363,087
<b>Investment Securities Held-to-Maturity</b>		
Domestic:		
Due within one year	\$ 135	\$ 137
Due after one year through five years	-	-
Due after five years through ten years	649	649
Due after ten years	351,515	352,648
Total domestic investment securities held-to-maturity	352,299	353,434
Foreign:		
Due within one year	-	-
Due after one year through five years	1,000	1,000
Total foreign investment securities held-to-maturity	1,000	1,000
Total investment securities held-to-maturity	\$ 353,299	\$ 354,434

after taxes). For the year ended December 31, 2001, the Corporation sold investment securities available-for-sale resulting in a realized loss



of \$36,000 (\$23,000 after taxes). Included in asset-backed and other securities are the Bank's investment in securities of U.S. government sponsored entities. The Corporation had investment securities with a book value of \$1.3 billion and \$3.2 billion at December 31, 2003 and 2002, respectively, held in the Bank's account with the Federal Reserve Bank of Philadelphia, which are available for use as collateral.

December 31, 2003	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Investment securities available-for-sale:</b>						
Domestic:						
U.S. Treasury and other U.S. government agencies obligations	\$ 199,633	\$ (266 )	\$ -	\$ -	\$ 199,633	\$ (266 )
State and political subdivisions of the United States	-	-	-	-	-	-
Asset-backed and other securities	113,669	(44 )	112,152	(112)	225,821	(156 )
Total domestic investment securities available-for-sale	313,302	(310 )	112,152	(112)	425,454	(422 )
Foreign	427,753	(287 )	-	-	427,753	(287 )
Total investment securities available-for-sale	\$ 741,055	\$ (597 )	\$ 112,152	\$ (112)	\$ 853,207	\$ (709 )
<b>Investment securities held-to-maturity:</b>						
Domestic:						
U.S. Treasury and other U.S. government agencies obligations	\$ 202,031	\$ (3,773)	\$ -	\$ -	\$ 202,031	\$ (3,773)
State and political subdivisions of the United States	-	-	-	-	-	-
Asset-backed and other securities	8,079	(211 )	-	-	8,079	(211 )
Total domestic investment securities held-to-maturity	210,110	(3,984)	-	-	210,110	(3,984)
Foreign	-	-	-	-	-	-
Total investment securities held-to-maturity	\$ 210,110	\$ (3,984)	\$ -	\$ -	\$ 210,110	\$ (3,984)

**SUMMARY OF INVESTMENT SECURITIES** (dollars in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<b>December 31, 2003</b>				
Investment securities available-for-sale:				
Domestic:				
U.S. Treasury and other U.S. government agencies obligations	\$ 2,024,520	\$ 7,362	\$ (266 )	\$ 2,031,616
State and political subdivisions of the United States	102,685	-	-	102,685
Asset-backed and other securities	1,796,824	4,365	(156 )	1,801,033
Total domestic investment securities available-for-sale	3,924,029	11,727	(422 )	3,935,334
Foreign	428,040	-	(287 )	427,753
Total investment securities available-for-sale	\$ 4,352,069	\$ 11,727	\$ (709 )	\$ 4,363,087
Investment securities held-to-maturity:				
Domestic:				
U.S. Treasury and other U.S. government agencies obligations	\$ 335,445	\$ 4,910	\$ (3,773 )	\$ 336,582
State and political subdivisions of the United States	7,615	171	-	7,786
Asset-backed and other securities	9,239	38	(211 )	9,066
Total domestic investment securities held-to-maturity	352,299	5,119	(3,984 )	353,434
Foreign	1,000	-	-	1,000
Total investment securities held-to-maturity	\$ 353,299	\$ 5,119	\$ (3,984 )	\$ 354,434
<b>December 31, 2002</b>				
Investment securities available-for-sale:				
Domestic:				
U.S. Treasury and other U.S. government agencies obligations (a)	\$ 1,908,384	\$ 26,850	\$ -	\$ 1,935,234
State and political subdivisions of the United States	101,370	-	-	101,370
Asset-backed and other securities (a)	1,391,465	10,607	(544 )	1,401,528
Total domestic investment securities available-for-sale	3,401,219	37,457	(544 )	3,438,132
Foreign	216,286	1,390	-	217,676
Total investment securities available-for-sale	\$ 3,617,505	\$ 38,847	\$ (544 )	\$ 3,655,808
Investment securities held-to-maturity:				
Domestic:				
U.S. Treasury and other U.S. government agencies obligations (a)	\$ 400,724	\$ 9,061	\$ (504 )	\$ 409,281
State and political subdivisions of the United States	7,289	189	-	7,478
Asset-backed and other securities (a)	9,747	78	(125 )	9,700
Total domestic investment securities held-to-maturity	417,760	9,328	(629 )	426,459
Foreign	2,000	13	-	2,013
Total investment securities held-to-maturity	\$ 419,760	\$ 9,341	\$ (629 )	\$ 428,472
<b>December 31, 2001</b>				
Investment securities available-for-sale:				
Domestic:				
U.S. Treasury and other U.S. government agencies obligations (a)	\$ 1,657,001	\$ 20,822	\$ (699 )	\$ 1,677,124
State and political subdivisions of the United States	105,067	41	-	105,108
Asset-backed and other securities (a)	1,149,908	9,621	(845 )	1,158,684
Total domestic investment securities available-for-sale	2,911,976	30,484	(1,544 )	2,940,916
Foreign	165,735	470	(237 )	165,968
Total investment securities available-for-sale	\$ 3,077,711	\$ 30,954	\$ (1,781 )	\$ 3,106,884

## Investment securities held-to-maturity:

Domestic:								
U.S. Treasury and other U.S. government agencies obligations (a)	\$	368,531	\$	456	\$	(15,443)	\$	353,544
State and political subdivisions of the United States		6,692		1,389		(9 )		8,072
Asset-backed and other securities (a)		2,082		-		(105 )		1,977
Total domestic investment securities held-to-maturity		377,305		1,845		(15,557)		363,593
Foreign		2,000		42		-		2,042
Total investment securities held-to-maturity	\$	379,305	\$	1,887	\$	(15,557)	\$	365,635

(a) For purposes of comparability, prior period amounts have been reclassified.

**NOTE 8: ASSET SECURITIZATION**

Asset securitization removes loan principal receivables from the Corporation's consolidated statements of financial condition and converts interest income, interchange income, credit card and other consumer loan fees, insurance income, recoveries on charged-off securitized loans in excess of interest paid to investors, gross credit losses, and other trust expenses into securitization income. Asset securitization involves the sale to a trust of a pool of loan principal receivables, and is accomplished through the public and private issuance of asset-backed securities. Certificates representing undivided interests in the trusts are sold by the trusts to investors, while the remaining undivided interest is retained by the Corporation. The Corporation includes the remaining undivided interest of \$19.5 billion and \$17.7 billion at December 31, 2003 and 2002, respectively, in loan receivables. Loan receivables consist of the Corporation's loans held for securitization and the loan portfolio. The carrying value of these loan principal receivables approximates fair value. The senior classes of the asset-backed securities generally receive a AAA credit rating at the time of issuance. This AAA credit rating is principally based on the quality of the loan principal receivables, the structure of the transaction, and additional credit enhancement, generally through the sale of lower-rated subordinated classes of asset-backed securities.

**ACCOUNTS RECEIVABLE FROM SECURITIZATION**

*(dollars in thousands)*

December 31,	2003	2002
Sale of new loan principal receivables	\$ 2,191,335	\$ 1,813,589
Accrued interest and fees on securitized loans	1,958,873	2,027,281
Interest-only strip receivable	1,338,061	1,129,965
Accrued servicing fees	777,623	667,246
Cash reserve accounts	607,467	473,271
Other subordinated retained interests	608,550	613,659
Other	284,568	201,865
Total accounts receivable from securitization	\$ 7,766,477	\$ 6,926,876

During 2003 and 2002, the Corporation sold loan principal receivables in numerous securitization transactions. At December 31, 2003 and 2002, the trusts had approximately \$83.4 billion and \$77.0 billion, respectively, of investor principal outstanding. The Corporation retains servicing responsibilities for the loans in the trusts and maintains other retained subordinated interests in the securitized assets. These retained subordinated

interests include an interest-only strip receivable, cash reserve accounts, accrued interest and fees on securitized loans, and other subordinated interests and are included in accounts receivable from securitization in the audited consolidated statements of financial condition. The Corporation receives annual contractual servicing fees of approximately 2% of the investor principal outstanding and rights to current and future revenue generated from securitized loans arising after the investors in the trusts receive the return for which they have contracted and credit losses are absorbed. The Corporation does not record a servicing asset or a liability for these rights since the contractual servicing fee approximates its market value. Aside from the Corporation's remaining undivided interest in the trusts, the investors and providers of credit enhancement have a lien on a portion of the retained subordinated interests. If cash flows allocated to investors in the trusts are insufficient to absorb expenses of the trust, then the retained interests of the Corporation would be used to absorb such deficiencies and may not be realized by the Corporation. The Corporation has no obligation to provide further funding support to either the investors or the trusts if the securitized loans are not paid when due. The Corporation's retained interests are subordinate to the investors' interests. The value of the retained interests is subject to credit, payment, and interest rate risks on the transferred financial assets. The retained interests are reported at estimated fair value in accounts receivable from securitization with changes in fair value recorded in earnings.

Accounts receivable from securitization also includes a receivable for the sale of new loan principal receivables that have been transferred to the trusts during the revolving period. The Corporation realizes the receivable for these sales from the trusts in the month following the sale. The Corporation also recognizes a receivable for accrued interest and fees on securitized loans that relate to the rights transferred by the Corporation to the trusts for the cash collection of interest and fees accrued on loan receivables prior to the securitization transaction. As securitized loans are paid off and new loan principal receivables are transferred to the investor interest in the trusts during the revolving period, this receivable is collected and re-established on a monthly basis at an amount that approximates its fair value due to its short-term nature. The Corporation regains the right to keep the collection of the accrued interest and fees from the Customer during the accumulation period of the securitization transaction.

**SECURITIZATION CASH FLOWS** *(dollars in millions)*

Year Ended December 31,	2003		2002		2001	
	Credit	Other	Credit	Other	Credit	Other

	Card	Consumer	Card	Consumer	Card	Consumer
Proceeds from new securitizations	\$ 13,598	\$ -	\$ 15,373	\$ -	\$ 12,330	\$ -
Collections reinvested in revolving-period securitizations	121,586	3,389	103,900	3,385	92,210	3,500
Contractual servicing fees received	1,467	56	1,339	56	1,247	56
Cash flows received on retained interests	4,913	103	4,505	244	3,886	148

**SUPPLEMENTAL CREDIT LOSS INFORMATION** (dollars in thousands)

	Average Balance	Credit Losses	Recoveries	Net Credit Losses
<b>Year Ended December 31, 2003</b>				
Managed Loans:				
Credit card	\$ 95,812,328	\$ 5,048,429	\$ (359,680)	\$ 4,688,749
Other consumer	14,062,646	1,124,353	(73,937 )	1,050,416
Total managed loans	109,874,974	6,172,782	(433,617)	5,739,165
Securitized Loans:				
Credit card	(76,008,752 )	(4,157,742)	286,828	(3,870,914)
Other consumer	(5,682,404 )	(535,254 )	30,699	(504,555 )
Total securitized loans	(81,691,156)	(4,692,996)	317,527	(4,375,469)
Loan receivables	\$ 28,183,818	\$ 1,479,786	\$ (116,090)	\$ 1,363,696
<b>Year Ended December 31, 2002</b>				
Managed Loans:				
Credit card	\$ 86,378,943	\$ 4,331,274	\$ (281,068)	\$ 4,050,206
Other consumer	13,654,988	995,105	(53,716 )	941,389
Total managed loans	100,033,931	5,326,379	(334,784)	4,991,595
Securitized Loans:				
Credit card	(69,014,880)	(3,589,724)	228,463	(3,361,261)
Other consumer	(5,703,851 )	(497,087 )	22,965	(474,122 )
Total securitized loans	(74,718,731)	(4,086,811)	251,428	(3,835,383)
Loan receivables	\$ 25,315,200	\$ 1,239,568	\$ (83,356 )	\$ 1,156,212
<b>Year Ended December 31, 2001</b>				
Managed Loans:				
Credit card	\$ 79,008,957	\$ 3,865,206	\$ (282,118)	\$ 3,583,088
Other consumer	11,891,031	756,563	(32,623 )	723,940
Total managed loans	90,899,988	4,621,769	(314,741)	4,307,028
Securitized Loans:				
Credit card	(64,817,684)	(3,239,729)	229,768	(3,009,961)
Other consumer	(5,742,916 )	(457,567 )	15,514	(442,053 )
Total securitized loans	(70,560,600)	(3,697,296)	245,282	(3,452,014)
Loan receivables	\$ 20,339,388	\$ 924,473	\$ (69,459 )	\$ 855,014

During 2002, the change in the estimated value of accrued interest and fees in 2002 reduced the carrying value of accrued interest and fees on securitized loans by \$295.9 million. The Corporation also adjusted the value of the interest-only strip receivable as a result of the change in the estimated value of the uncollectible accrued interest and fees in 2002. The Corporation had always included an estimate of uncollectible accrued interest and fees in determining the value of the interest-only strip receivable. Since the Corporation now recognizes uncollectible interest and fees in the estimated value of accrued interest and fees on securitized loans, the estimated value of the

Included in accounts receivable from securitization in the consolidated statements of financial condition at December 31, 2003 and 2002, were \$1.2 billion of amounts which are subject to a lien by the investors and providers of credit enhancement in the securitization transactions. The investors and providers of credit enhancement have no other recourse to the Corporation. The Corporation does not receive collateral from any party to the securitization transactions and does not have any risk of counter-party nonperformance.

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interest-only strip receivable was adjusted at September 30, 2002. The value of uncollectible accrued interest and fees on securitized loans that are currently owed by the underlying Customer are now considered in the value of accrued interest and fees on securitized loans. Accordingly, the estimated value of the interest-only strip receivable now only considers the impact of uncollectible interest and fees that will be billed to the underlying Customer in the future. This adjustment caused the interest-only strip receivable to increase \$123.9 million at September 30, 2002. The net impact of these changes resulted in a \$172.0 million reduction to accounts receivable from securitization.

The gain from the sale of loan principal receivables for new securitization transactions that the Corporation recognizes as sales in accordance with Statement No. 140 is included in securitization income in the Corporation's audited consolidated statements of income. The gain was \$124.5 million (net of securitization transaction costs of \$51.2 million) for 2003 (on the sale of \$13.6 billion of credit card loan principal receivables in 2003), as compared to \$154.6 million (net of securitization transaction costs of \$41.7 million) in 2002 (on the sale of \$15.5 billion of credit card loan principal receivables in 2002) and a gain of \$96.7 million (net of securitization transaction costs of \$62.3 million) in 2001 (on the sale of \$12.4 billion of credit card

**SUPPLEMENTAL LOAN DELINQUENCY INFORMATION (a) (dollars in thousands)**

December 31,	2003		2002	
	Loans Outstanding	Loans Delinquent	Loans Outstanding	Loans Delinquent
<b>Managed Loans</b>				
Credit card	\$ 104,180,610	\$ 4,462,900	\$ 93,326,206	\$ 4,401,277
Other consumer	14,312,950	740,750	13,931,636	828,234
Total managed loans	118,493,560	5,203,650	107,257,842	5,229,511
<b>Securitized Loans</b>				
Credit card	(79,197,651)	(3,562,196)	(72,853,426)	(3,576,439)
Other consumer	(5,671,832)	(351,655)	(5,677,908)	(401,469)
Total securitized loans	(84,869,483)	(3,913,851)	(78,531,334)	(3,977,908)
Loan receivables	\$ 33,624,077	\$ 1,289,799	\$ 28,726,508	\$ 1,251,603

(a) Loans delinquent are accruing loans which are 30 days or more past due.

loan principal receivables in 2001). During the third quarter of 2003, the Corporation began including projected express payment and returned check fees in the determination of the fair value of the interest-only strip receivable. Upon inclusion of projected express payment and returned check fees, the interest-only strip receivable and securitization income increased by approximately \$28.9 million for 2003. For the fourth quarter of 2003, this inclusion increased the interest-only strip receivable and securitization income an additional \$3.0 million. The Corporation began including express payment fees in the determination of the fair value of the interest-only strip receivable because Customers are increasingly choosing to utilize express payment services to ensure that their payments are received on time and that they do not incur a late fee. The Corporation does not expect the inclusion of these fees to have a material effect on the Corporation's earnings in subsequent periods.

In accordance with Statement No. 140, the Corporation recognizes an interest-only strip receivable, which represents the contractual right to receive interest and other revenue less certain costs from the trusts over the estimated life of securitized loan principal

**SENSITIVITIES (a) (dollars in thousands)**

Year Ended December 31,	2003		2002		2001	
	Credit Card	Other Consumer	Credit Card	Other Consumer	Credit Card	Other Consumer
Interest-only strip receivable	\$ 1,254,018	\$ 84,043	\$ 1,091,447	\$ 38,518	\$ 1,008,419	\$ 115,644
Weighted average life (in years)	.33	.89	.33	.87	.35	.93
Loan payment rate (weighted average rate)	14.73 %	4.92 %	14.44 %	5.05 %	13.60 %	4.67 %
Impact on fair value of 20% adverse change	\$ 176,185	\$ 12,785	\$ 156,897	\$ 5,835	\$ 144,892	\$ 17,304

receivables. The Corporation uses certain key assumptions and estimates in determining the value of the interest-only strip receivable. These key assumptions and estimates include projections concerning interest income, certain fees, charged-off loan recoveries, gross credit losses, contractual servicing fees, and the interest rate paid to investors. These assumptions are used to determine the excess spread to be earned by the Corporation over the estimated life of the securitized loan principal receivables. Other key assumptions and estimates used by the Corporation include projected loan payment rates, which are used to determine the estimated life of the securitized loan principal receivables, and an appropriate discount rate. The Corporation reviews the key assumptions and estimates used in determining the fair value of the interest-only strip receivable on a quarterly basis and adjusts them as appropriate. If these assumptions change or actual results differ from projected results, the interest-only strip receivable and securitization income would be affected.

The Corporation's securitization key assumptions and their sensitivities to adverse changes are presented in the below table.

**SECURITIZATION KEY ASSUMPTIONS AND**



Impact on fair value of 40% adverse change	<b>307,198</b>	<b>21,980</b>	268,019	10,081	246,857	29,870
Gross credit losses (b) (weighted average rate)	<b>5.23</b> %	<b>9.64</b> %	5.43 %	9.83 %	5.25 %	8.40 %
Impact on fair value of 20% adverse change	<b>\$ 252,520</b>	<b>\$ 83,294</b>	\$ 244,432	\$ 38,518	\$ 205,460	\$ 74,666
Impact on fair value of 40% adverse change	<b>505,039</b>	<b>84,043</b>	488,865	38,518	410,919	115,644
Excess spread (c) (weighted average rate)	<b>5.19</b> %	<b>1.95</b> %	4.84 %	.91 %	5.14 %	2.60 %
Impact on fair value of 20% adverse change	<b>\$ 250,804</b>	<b>\$ 16,809</b>	\$ 218,289	\$ 7,704	\$ 201,684	\$ 23,129
Impact on fair value of 40% adverse change	<b>501,607</b>	<b>33,617</b>	436,579	15,407	403,368	46,258
Discount rate (weighted average rate)	<b>9.00</b> %	<b>9.00</b> %	9.00 %	9.00 %	12.00 %	12.00 %
Impact on fair value of 20% adverse change	<b>\$ 5,495</b>	<b>\$ 902</b>	\$ 4,870	\$ 404	\$ 6,195	\$ 1,709
Impact on fair value of 40% adverse change	<b>10,950</b>	<b>1,789</b>	9,703	801	12,326	3,378

- (a) The sensitivities do not reflect actions management might take to offset the impact of possible adverse changes if they were to occur.
- (b) Gross credit losses exclude the impact of recoveries; however, recoveries are included in the determination of the excess spread.
- (c) Excess spread includes projections of interest income, certain fees, and charged-off loan recoveries, less gross credit losses, contractual servicing fees, and the interest rate paid to investors.

The adverse changes to the key assumptions and estimates are hypothetical and are presented in accordance with Statement No. 140. The amount of the adverse change has been limited to the recorded amount of the interest-only strip receivable where the hypothetical change exceeds the value of the interest-only strip receivable. The sensitivities do not reflect actions management might take to offset the impact of the possible adverse changes if they were to occur.

#### NOTE 9: GEOGRAPHICAL DIVERSIFICATION OF LOANS

The Corporation originates credit card and other consumer loans, primarily throughout the United States, the United Kingdom, Ireland, Spain, and Canada. Credit card and other consumer loans originated in the United States are broadly distributed throughout the United States' geographic regions. Credit card and other consumer loans issued by MBNA Europe are primarily located in the United Kingdom, Ireland and Spain, while MBNA Canada issues credit card and other consumer loans in Canada. The following table details the geographic distribution of the Corporation's loan receivables, securitized loans, and managed loans.

The Corporation's loans are generally made on an unsecured basis after reviewing each potential Customer's credit application and evaluating the applicant's financial history and ability and willingness to repay. The average credit line to individual Customers is approximately \$12,000 and the average balance per account is approximately \$3,800 at December 31, 2003.

#### GEOGRAPHIC DISTRIBUTION OF LOAN RECEIVABLES, SECURITIZED LOANS, AND MANAGED LOANS

(dollars in thousands)

	Loan Receivables		Securitized Loans		Managed Loans	
<b>December 31, 2003</b>						
United States:						
Northern	\$ 2,978,085	8.9 %	\$ 9,421,779	11.1 %	\$ 12,399,864	10.4 %
Mid-Atlantic	3,982,186	11.8	12,471,359	14.7	16,453,545	13.9
Southern	4,907,262	14.6	15,200,016	17.9	20,107,278	17.0
Central	4,158,939	12.4	12,773,701	15.0	16,932,640	14.3
Western	4,282,156	12.7	13,037,909	15.4	17,320,065	14.6
Southwestern	3,503,874	10.4	10,239,353	12.1	13,743,227	11.6
United Kingdom/Ireland/Spain	8,421,986	25.0	8,738,274	10.3	17,160,260	14.5
Canada	799,987	2.4	2,838,555	3.3	3,638,542	3.1
Other	589,602	1.8	148,537	.2	738,139	.6
Total	\$ 33,624,077	100.0%	\$ 84,869,483	100.0%	\$ 118,493,560	100.0%

#### December 31, 2002

United States:						
Northern	\$ 2,631,643	9.1 %	\$ 8,864,417	11.3 %	\$ 11,496,060	10.7 %
Mid-Atlantic	3,682,054	12.8	12,119,223	15.4	15,801,277	14.7

#### NOTE 10: RESERVE FOR POSSIBLE CREDIT LOSSES

The Corporation maintains the reserve for possible credit losses at an amount sufficient to absorb losses inherent in the Corporation's loan principal receivables at the reporting date based on a projection of probable net credit losses.

#### CHANGES IN THE RESERVE FOR POSSIBLE CREDIT LOSSES (dollars in thousands)

December 31,	2003	2002	2001
Reserve for possible credit losses, beginning of year	\$ 1,111,299	\$ 833,423	\$ 527,573
Reserves acquired	61,116	84,878	20,748
Provision for possible credit losses	1,392,701	1,340,157	1,140,615
Foreign currency translation	14,896	9,053	(499 )
Credit losses	(1,479,786)	(1,239,568)	(924,473 )
Recoveries	116,090	83,356	69,459
Net credit losses	(1,363,696)	(1,156,212)	(855,014 )
Reserve for possible credit losses, end of year	\$ 1,216,316	\$ 1,111,299	\$ 833,423

See Note 3: Significant Accounting Policies—Reserve for Possible Credit Losses for further detail on the Corporation's policy relating to the determination of the reserve for possible credit losses.

Southern	4,418,794	15.4	14,635,670	18.6	19,054,464	17.8
Central	3,695,040	12.9	11,766,278	15.0	15,461,318	14.4
Western	3,860,223	13.4	12,372,409	15.8	16,232,632	15.2
Southwestern	3,132,050	10.9	9,658,475	12.3	12,790,525	11.9
United Kingdom/Ireland/Spain	6,264,711	21.8	7,054,676	9.0	13,319,387	12.4
Canada	564,217	2.0	1,911,874	2.4	2,476,091	2.3
Other	477,776	1.7	148,312	.2	626,088	.6
Total	\$ 28,726,508	100.0%	\$ 78,531,334	100.0%	\$ 107,257,842	100.0%

**NOTE 11: ACCRUING LOANS PAST DUE 90 DAYS OR MORE** (dollars in thousands)

December 31,	2003	2002
<b>Loan Receivables</b>		
Domestic:		
Credit card	\$ 365,668	\$ 310,413
Other consumer	164,315	179,378
Total domestic	529,983	489,791
Foreign	52,622	48,798
Total	\$ 582,605	\$ 538,589

**Securitized Loans**

Domestic:		
Credit card	\$ 1,563,719	\$ 1,429,522
Other consumer	174,314	186,256
Total domestic	1,738,033	1,615,778
Foreign	122,232	142,540
Total	\$ 1,860,265	\$ 1,758,318

**Managed Loans**

Domestic:		
Credit card	\$ 1,929,387	\$ 1,739,935
Other consumer	338,629	365,634
Total domestic	2,268,016	2,105,569
Foreign	174,854	191,338
Total	\$ 2,442,870	\$ 2,296,907

The table above excludes nonaccrual loans, which are presented in Note 12: Nonaccrual Loans. The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees.

**NOTE 12: NONACCRUAL LOANS** (dollars in thousands)

December 31,	2003	2002
<b>Loan Receivables</b>		
Domestic:		
Credit card	\$ 13,114	\$ 48,318
Other consumer	1,053	2,481
Total domestic	14,167	50,799
Foreign	85,284	6,733
Total	\$ 99,451	\$ 57,532

Nonaccrual loan receivables as a percentage of ending loan receivables	.30	%	.20	%
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**Securitized Loans**

Domestic:		
Credit card	\$ 47,772	\$ 215,605

Nonaccrual loans are charged off consistent with the Corporation's charge-off policy. On a case-by-case basis, management determines if an account should be placed on nonaccrual status. When loans are classified as nonaccrual, the accrual of interest ceases. In future periods when a payment is received, it is recorded as a reduction of principal. The Corporation considers these loans and other factors in determining an appropriate reserve for possible credit losses and the estimate of uncollectible accrued interest and fees.

**NOTE 13: PREMISES AND EQUIPMENT**

Depreciation expense was \$229.2 million, \$224.3 million, and \$208.0 million for the years ended December 31, 2003, 2002, and 2001, respectively. Amortization expense on capitalized software was \$104.3 million, \$83.6 million, and \$65.7 million for the years ended December 31, 2003, 2002, and 2001, respectively.

**SUMMARY OF PREMISES AND EQUIPMENT**

(dollars in thousands)

December 31,	2003	2002
Land	\$ 207,479	\$ 220,943
Buildings and improvements	2,159,226	1,957,432
Furniture and equipment	1,285,063	1,262,444
Software	733,279	546,615
Total	4,385,047	3,987,434
Accumulated depreciation	(1,436,507)	(1,252,175)
Accumulated amortization on software	(271,943)	(216,158)
Premises and equipment, net	\$ 2,676,597	\$ 2,519,101

**NOTE 14: LEASE COMMITMENTS**

The Corporation leases certain office facilities and equipment under operating lease agreements that provide for payment of property taxes, insurance, and maintenance costs. These leases include renewal options, with certain leases providing purchase options. Rental expense for operating leases was \$26.7 million, \$29.7 million, and \$26.7 million for the years ended December 31, 2003, 2002, and 2001, respectively.

**FUTURE MINIMUM RENTAL PAYMENTS UNDER NONCANCELABLE OPERATING LEASES**

(dollars in thousands)

2004	\$ 28,400
2005	20,683
2006	8,708
2007	1,898
2008	172

Other consumer	<u>1,050</u>	<u>2,348</u>
Total domestic	<u>48,822</u>	<u>217,953</u>
Foreign	<u>129,140</u>	<u>11,798</u>
Total	<u>\$ 177,962</u>	<u>\$ 229,751</u>

Nonaccrual securitized loans as a percentage of ending securitized loans .21 % .29 %

### Managed Loans

Domestic:		
Credit card	<u>\$ 60,886</u>	<u>\$ 263,923</u>
Other consumer	<u>2,103</u>	<u>4,829</u>
Total domestic	<u>62,989</u>	<u>268,752</u>
Foreign	<u>214,424</u>	<u>18,531</u>
Total	<u>\$ 277,413</u>	<u>\$ 287,283</u>

Nonaccrual managed loans as a percentage of ending managed loans .23 % .27 %

Thereafter	<u>134</u>
Total minimum lease payments	<u>\$ 59,995</u>

## SUMMARY OF SHORT-TERM BORROWINGS *(dollars in thousands)*

Year Ended December 31,	2003	2002	2001
<b>Federal Funds Purchased and Securities Sold Under Repurchased Agreements</b>			
Balance at year end	\$ -	\$ -	\$ -
Weighted average interest rate at year end	- %	- %	- %
Average balance outstanding during the year	\$ -	\$ 1,502	\$ 1,863
Maximum amount outstanding at any month end	-	-	-
Weighted average interest rate during the year	- %	1.80 %	3.76 %
<b>Other Short-Term Borrowings</b>			
Balance at year end	\$ 1,025,463	\$ 1,250,103	\$ 1,774,816
Weighted average interest rate at year end	3.75 %	3.31 %	2.94 %
Average balance outstanding during the year	\$ 1,141,954	\$ 1,251,619	\$ 561,768
Maximum amount outstanding at any month end	1,246,872	1,340,653	1,774,816
Weighted average interest rate during the year	3.43 %	3.43 %	4.40 %

### NOTE 15: DEPOSITS

Total deposits were \$31.8 billion and \$30.6 billion at December 31, 2003 and 2002, respectively. The Corporation utilizes deposits to fund loan and other asset growth and to diversify funding sources. Direct deposits are deposits marketed to and received from individual Customers without the use of a third-party intermediary. Other deposits are deposits normally obtained through the use of a third-party intermediary.

Domestic time deposits in amounts of \$100,000 or more totaled \$3.4 billion and \$3.3 billion at December 31, 2003 and 2002, respectively. Foreign time deposits in amount of \$100,000 or more totaled \$861.9 million and \$648.1 million at December 31, 2003 and 2002, respectively. The aggregate amount of deposits by maturity at December 31, 2003 was as follows:

### MATURITIES OF DEPOSITS *(dollars in thousands)*

December 31, 2003	Direct Deposits	Other Deposits (a)	Total Deposits
<b>Domestic:</b>			
One year or less	\$ 16,401,083	\$ 2,686,220	\$ 19,087,303
Over one year through two years	3,954,095	1,871,494	5,825,589
Over two years through three years	1,568,129	1,044,247	2,612,376
Over three years through four years	1,487,057	779,926	2,266,983
Over four years through five years	830,244	121,424	951,668
Over five years	8,615	-	8,615
Total domestic deposits	24,249,223	6,503,311	30,752,534
Foreign (b)	1,056,175	27,372	1,083,547
Total deposits	\$ 25,305,398	\$ 6,530,683	\$ 31,836,081

### NOTE 16: SHORT-TERM BORROWINGS

Federal funds purchased and securities sold under repurchase agreements are overnight borrowings that normally mature within one business day of the transaction date. Other short-term borrowings consist primarily of federal funds purchased that mature in more than one business day, short-term bank notes issued from the global bank note program established by the Bank, short-term deposit notes issued by MBNA Canada, and other transactions with maturities greater than one business day but less than one year.

Included in short-term borrowings at December 31, 2003 are two on-balance-sheet structured financings totaling \$900.0 million, which were entered into during 2003. These structured financings are secured by \$1.3 billion of domestic other consumer loan receivables. The Corporation has an option to liquidate these structured financings on a monthly basis.

Included in short-term borrowings at December 31, 2002 were two on-balance-sheet structured financings totaling \$1.0 billion, which were entered into during 2001. These structured financings were secured by \$1.1 billion of domestic other consumer loan receivables. The Corporation liquidated these structured financings in 2003.

The short-term deposit notes issued by MBNA Canada are unconditionally and irrevocably guaranteed as to payment of principal and interest by the Bank. MBNA Canada had CAD\$163.0 million (par value), which was approximately \$125.9 million of short-term deposit notes at December 31, 2003.

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- (a) At December 31, 2003, all other deposits were brokered deposits.
- (b) At December 31, 2003, all foreign deposits had maturities of one year or less.

**NOTE 17: LONG-TERM DEBT AND BANK NOTES**

Long-term debt and bank notes consist of borrowings having an original maturity of one year or more.

Original issue discount and deferred issuance costs are amortized over the terms of the related debt issuances.

The Corporation uses interest rate swap agreements and foreign exchange swap agreements to change a portion of fixed-rate long-term debt and bank notes to floating-rate long-term debt and bank notes to more closely match the rate sensitivity of the Corporation's assets. The Corporation also uses foreign exchange swap agreements to reduce its foreign currency exchange risk on a portion of long-term debt and bank notes issued by MBNA Europe.

Deposit liabilities have priority over the claims of other unsecured creditors of the Bank, including the holders of obligations, such as bank notes, in the event of liquidation.

**6.875% SENIOR NOTES**

These notes are direct, unsecured obligations of the Corporation and are not subordinated to any other indebtedness of the

Corporation. Interest on the 6.875% senior notes is payable semiannually. These notes may not be redeemed prior to their stated maturity.

**SENIOR MEDIUM-TERM NOTES**

These notes are direct, unsecured obligations of the Corporation and are not subordinated to any other indebtedness of the Corporation. These notes may not be redeemed prior to their stated maturities. The Corporation had \$2.3 billion (par value) of fixed-rate senior medium-term notes outstanding at December 31, 2003, with rates ranging from 4.625% to 7.50%. Interest on the fixed-rate senior medium-term notes is payable semiannually. The Corporation also had \$95.0 million (par value) of floating-rate senior medium-term notes outstanding at December 31, 2003. These floating-rate senior medium-term notes are priced between 95 basis points and 175 basis points over the three-month London Interbank Offered Rate ("LIBOR"). Interest on the floating-rate senior medium-term notes is payable quarterly. At December 31, 2003, the three-month LIBOR was 1.15%.

**SUMMARY OF LONG-TERM DEBT AND BANK NOTES**

*(dollars in thousands)*

December 31,	2003	2002
<b>Parent Company</b>		
6.875% Senior Notes, maturing in 2005	\$ 99,856	\$ 99,761
Fixed-Rate Senior Medium-Term Notes, with a weighted average interest rate of 6.06% and 6.55%, respectively, maturing in varying amounts from 2004 through 2015	2,324,231	1,522,701
Floating-Rate Senior Medium-Term Notes, maturing in varying amounts in 2004	94,968	338,862
Junior Subordinated Deferrable Interest Debentures, series A, with an interest rate of 8.278% maturing in 2026	287,576	-
Junior Subordinated Deferrable Interest Debentures, series B, with an interest rate equal to 80 basis points above the three-month London Interbank Offered Rate, maturing in 2027	286,112	-
Junior Subordinated Deferrable Interest Debentures, series C, with an interest rate of 8.25% maturing in 2027	35,764	-
Junior Subordinated Deferrable Interest Debentures, series D, with an interest rate of 8.125% maturing in 2032	320,362	-
Junior Subordinated Deferrable Interest Debentures, series E, with an interest rate of 8.10% maturing in 2033	204,810	-
Total parent company	3,653,679	1,961,324
<b>Subsidiaries</b>		
Fixed-Rate Bank Notes, with a weighted average interest rate of 6.65% and 6.66%, respectively, maturing in varying amounts from 2004 through 2008	2,078,640	2,139,385
Floating-Rate Bank Notes, maturing in varying amounts from 2004 through 2005	154,928	364,668
Fixed-Rate Medium-Term Deposit Notes, with a weighted average interest rate of 5.29% and 6.08%, respectively, maturing in varying amounts from 2004 through 2008	612,466	338,685
Floating-Rate Medium-Term Deposit Notes, maturing in varying amounts from 2004 through 2006	217,068	142,563
Fixed-Rate Euro Medium-Term Notes, with a weighted average interest rate of 5.58% and 5.83%, respectively, maturing from 2004 through 2009	3,022,266	1,608,198
Floating-Rate Euro Medium-Term Notes, maturing in varying amounts from 2004 through 2008	1,099,537	511,562
6.75% Subordinated Notes, maturing in 2008	274,479	281,797



6.625% Subordinated Notes, maturing in 2012	<b>533,739</b>	548,957
7.125% Subordinated Notes, maturing in 2012	<b>498,826</b>	511,094
Guaranteed Preferred Beneficial Interests in Corporation' s Junior Subordinated Deferrable Interest Debentures, series A, with an interest rate of 8.278%, maturing in 2026	–	290,811
Guaranteed Preferred Beneficial Interests in Corporation' s Junior Subordinated Deferrable Interest Debentures, series B, with an interest rate equal to 80 basis points above the three-month London Interbank Offered Rate, maturing in 2027	–	277,421
Guaranteed Preferred Beneficial Interests in Corporation' s Junior Subordinated Deferrable Interest Debentures, series C, with an interest rate of 8.25%, maturing in 2027	–	36,562
Guaranteed Preferred Beneficial Interests in Corporation' s Junior Subordinated Deferrable Interest Debentures, series D, with an interest rate of 8.125%, maturing in 2032	–	319,232
Guaranteed Preferred Beneficial Interests in Corporation' s Junior Subordinated Deferrable Interest Debentures, series E, with an interest rate of 8.10%, maturing in 2033	–	205,914
Long-term debt and bank notes	<b>\$ 12,145,628</b>	<b>\$ 9,538,173</b>

## BANK NOTES

The bank notes are direct, unconditional, unsecured obligations of the Bank, and are not subordinated to any other obligations of the Bank. The Bank had \$2.0 billion (par value) of fixed-rate bank notes outstanding at December 31, 2003, with rates ranging from 5.375% to 7.76%. Interest is payable semiannually. The Bank also had \$155.0 million (par value) of floating-rate bank notes outstanding at December 31, 2003, with rates priced between 30 basis points and 60 basis points over the three-month LIBOR. Interest on bank notes is payable quarterly.

## MINIMUM ANNUAL MATURITIES OF LONG-TERM DEBT AND BANK NOTES (dollars in thousands)

(Par Value)	Parent Company	MBNA Corporation and Subsidiaries
2004	\$130,000	\$ 2,052,885
2005	100,000	1,504,040
2006	—	810,260
2007	700,000	1,408,766
2008	250,000	1,609,782

## JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Corporation, through MBNA Capital A (registered December 1996), MBNA Capital B (registered January 1997), MBNA Capital C (registered March 1997), MBNA Capital D (registered June 2002), and MBNA Capital E (registered November 2002), each a statutory business trust created under the laws of the State of Delaware (collectively the “statutory trusts”), issued capital securities and common securities: series A, series B, series C, series D, and series E, respectively. The Corporation is the owner of all the beneficial ownership interests represented by the common securities of the statutory trusts. The statutory trusts exist for the sole purpose of issuing the series capital securities and the series common securities and investing the proceeds in junior subordinated deferrable interest debentures issued by the Corporation. These securities qualify as regulatory capital for the Corporation.

The junior subordinated deferrable interest debentures are the sole assets of the statutory trusts, and the payments under the junior subordinated deferrable interest debentures are the sole revenues of the statutory trusts. Interest on the series capital securities is payable semiannually or quarterly. The Corporation has the right to defer payment of interest on the junior subordinated deferrable interest debentures at any time, or from time-to-time, for a period not exceeding 10 consecutive semiannual periods or 20 consecutive quarterly periods depending upon the series. If the payment of interest is deferred on the junior subordinated deferrable interest debentures, distributions on the series securities will be deferred and the Corporation also may not be permitted to

declare or pay any cash dividends on the Corporation’s capital stock or interest on debt securities that have equal or less priority than the junior subordinated deferrable interest debentures.

~~The series capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated deferrable interest debentures at their stated maturity or their earlier redemption. The junior subordinated deferrable interest debentures are redeemable prior to their stated maturity at the option of the Corporation, on or after the contractually specified dates, in whole at any time, or in part from time-to-time, or prior to the contractually specified dates, in whole only within 90 days following the occurrence of certain tax or capital treatment events. The contractually specified early redemption dates for series A, series B, series C, series D, and series E capital securities are December 1, 2006, February 1, 2007, January 15, 2002, October 1, 2007, and February 15, 2008, respectively. These contractually specified early redemption dates are subject to the Corporation having received prior approval from the Board of Governors of the Federal Reserve System. The series capital securities have a preference with respect to cash distributions and amounts payable on liquidation or redemption over the series common securities.~~

The obligations of the Corporation under the relevant junior subordinated deferrable interest debentures, indenture, trust agreement, and guarantee in the aggregate constitute a full and unconditional guarantee by the Corporation of all statutory trust obligations under the series capital securities issued by the statutory trusts. The junior subordinated deferrable interest debentures are unsecured and rank junior and are subordinate in right of payment to all senior debt obligations of the Corporation.

In January 2003, the FASB issued Interpretation No. 46. In accordance with Interpretation No. 46, the Corporation determined that the statutory trusts, were variable interest entities and that the Corporation was not the primary beneficiary. Effective July 1, 2003, the statutory trusts were deconsolidated. As a result of the deconsolidation, the junior subordinated deferrable interest debentures are included as parent company debt and recorded in long-term debt and bank notes in the Corporation’s consolidated financial statements and the guaranteed preferred beneficial interests in Corporation’s junior subordinated deferrable interest debentures are excluded from the Corporation’s audited consolidated financial statements in accordance with GAAP.

## MEDIUM-TERM DEPOSIT NOTES

These notes are direct, unconditional, unsecured obligations of MBNA Canada and are not subordinated to any other obligation of MBNA Canada. At December 31, 2003, MBNA Canada had CAD\$790.0 million (par value), which was approximately \$610.4 million, of fixed-rate medium-term deposit notes

outstanding, with rates ranging from 3.60% to 6.625%. Interest is payable semiannually. MBNA Canada also had CAD\$281.3 million (par value), which was approximately \$217.3 million, of floating-rate medium-term deposit notes outstanding at December 31, 2003. These floating-rate medium-term deposit notes are priced between 60 basis points and 105 basis points over the ninety-day bankers acceptance rate. Interest is payable quarterly. The medium-term deposit notes are unconditionally guaranteed as to payment of principal and interest by the Bank, and are not redeemable prior to their stated maturity. At December 31, 2003, the ninety-day bankers acceptance rate was 2.68%.

### EURO MEDIUM-TERM NOTES

The euro medium-term notes are unsecured obligations of MBNA Europe. These notes are unconditionally and irrevocably guaranteed in respect to all payments by the Bank.

At December 31, 2003, MBNA Europe had outstanding fixed-rate euro medium-term notes denominated in various currencies. The fixed-rate euro medium-term notes outstanding at December 31, 2003, were £250.0 million (par value), which was approximately \$448.0 million with interest payable quarterly, 1.5 billion (par value), which was approximately \$1.9 billion with interest payable quarterly, and 500.0 million (par value), which was approximately \$631.5 million with interest payable annually. The fixed-rate euro medium term notes had interest rates ranging from 4.50% to 6.50%.

At December 31, 2003, MBNA Europe also had outstanding floating-rate euro medium-term notes denominated in various currencies. The floating-rate euro medium-term notes outstanding at December 31, 2003 were £51.0 million (par value), which was approximately \$91.4 million, with interest priced between 58 basis points and 155 basis points over the three-month Sterling LIBOR, 750.0 million (par value), which was approximately \$947.3 million, with interest priced between 60 basis points and 105 basis points over the three-month Euro Interbank Offered Rate ("EURIBOR"), HKD130.0 million (par value), which was approximately \$16.9 million, with interest priced at 100 basis points over the three-month Hong Kong Interbank Offered Rate ("HIBOR"), and \$47.0 million (par value) with interest priced between 50 basis points and 64 basis points over the three-month LIBOR. Interest on these floating-rate euro medium-term notes is payable quarterly.

At December 31, 2003, the three-month Sterling LIBOR was 4.04%, the three-month EURIBOR was 2.12%, and the three-month HIBOR was 1.52%.

### 6.75% SUBORDINATED NOTES

The 6.75% Subordinated Notes are subordinated to the claims of depositors and other creditors of the Bank, unsecured, and not subject to redemption prior to maturity. Interest is payable semiannually. The 6.75% Subordinated Notes were issued by the Bank in 1998 and qualify as Tier 2 Capital, which is included in Total Capital, under the risk-based capital guidelines for both banks and bank holding companies.

### 6.625% SUBORDINATED NOTES

The 6.625% Subordinated Notes are subordinated to the claims of depositors and other creditors of the Bank, unsecured, and not subject to redemption prior to maturity. Interest is payable semiannually. The 6.625% Subordinated Notes were issued by the Bank in 2002 and qualify as Tier 2 Capital, which is included in Total Capital, under the risk-based capital guidelines for both banks and bank holding companies.

### 7.125% SUBORDINATED NOTES

The 7.125% Subordinated Notes are subordinated to the claims of depositors and other creditors of the Bank, unsecured, and not subject to redemption prior to maturity. Interest is payable semiannually. The 7.125% Subordinated Notes were issued by the Bank in 2002 and qualify as Tier 2 Capital, which is included in Total Capital, under the risk-based capital guidelines for both banks and bank holding companies.

## NOTE 18: STOCKHOLDERS' EQUITY

### PREFERRED STOCK

The Corporation is authorized to issue 20 million shares of preferred stock with a par value of \$.01 per share. The Corporation had 4.5 million shares of 7 1/2% cumulative preferred stock, Series A, outstanding at December 31, 2003 and 2002. The Corporation also had 4.0 million shares of adjustable rate cumulative preferred stock, Series B, outstanding at December 31, 2003 and 2002. Both of the outstanding series of preferred stock have a \$25 stated value per share.

Shares of the series preferred stock are not convertible into any other securities of the Corporation. The series preferred stock will not be entitled to the benefits of any sinking fund. All preferred shares rank senior to common shares both as to dividends and liquidation preference, but have no general voting rights. In the event that the equivalent of six full quarterly dividend periods are in arrears, the holders of the outstanding shares of the preferred stock (voting as a single class) will be entitled to vote for the election of two additional directors to serve until all dividends in arrears have been paid in full.

## PREFERRED STOCK DIVIDEND SUMMARY

Declaration Date	Payment Date	Series A		Series B	
		Dividend Rate	Dividend per Preferred Share	Dividend Rate	Dividend per Preferred Share
<b>January 22, 2004</b>	<b>April 15, 2004</b>	<b>7.50%</b>	<b>\$ .46875</b>	<b>5.50%</b>	<b>\$ .34380</b>
<b>October 16, 2003</b>	<b>January 15, 2004</b>	<b>7.50</b>	<b>.46875</b>	<b>5.50</b>	<b>.34380</b>
<b>July 24, 2003</b>	<b>October 15, 2003</b>	<b>7.50</b>	<b>.46875</b>	<b>5.50</b>	<b>.34380</b>
<b>April 23, 2003</b>	<b>July 15, 2003</b>	<b>7.50</b>	<b>.46875</b>	<b>5.50</b>	<b>.34380</b>
<b>January 23, 2003</b>	<b>April 15, 2003</b>	<b>7.50</b>	<b>.46875</b>	<b>5.50</b>	<b>.34380</b>
October 17, 2002	January 15, 2003	7.50	.46875	5.50	.34380
July 11, 2002	October 15, 2002	7.50	.46875	5.56	.34740
April 11, 2002	July 15, 2002	7.50	.46875	5.90	.36850
January 10, 2002	April 15, 2002	7.50	.46875	5.50	.34380
October 11, 2001	January 15, 2002	7.50	.46875	5.50	.34380
July 11, 2001	October 15, 2001	7.50	.46875	5.60	.35020
April 10, 2001	July 16, 2001	7.50	.46875	5.50	.34380
January 10, 2001	April 16, 2001	7.50	.46875	5.64	.35270

The Board of Directors declared the dividends presented in the Preferred Stock Dividend Summary for the Corporation's Series A and Series B Preferred Stock.

Dividends on the Series A Preferred Stock are cumulative from the date of original issue and are payable quarterly in arrears on January 15, April 15, July 15, and October 15 of each year. The shares of the Series A Preferred Stock are redeemable, in whole or in part, solely at the option of the Corporation, at a price of \$25 per share, plus accrued and unpaid dividends.

Dividends on the Series B Preferred Stock are cumulative from the date of original issue and are payable quarterly in arrears on January 15, April 15, July 15, and October 15 of each year. The dividend rate for any dividend period will be equal to 99.0% of the highest of the Treasury Bill Rate, the Ten-Year Constant Maturity Rate, and the Thirty-Year Constant Maturity Rate, as determined in advance of such dividend period, but not less than 5.5% per annum or more than 11.5% per annum. The amount of dividends payable with respect to the Series B Preferred Stock will be adjusted in the event of certain amendments to the Internal Revenue Code of 1986 ("Tax Code") with respect to the dividends-received deduction. The shares of the Series B Preferred Stock are redeemable, in whole or in part, solely at the option of the Corporation, at a price of \$25 per share, plus accrued and unpaid dividends.

The Corporation may, from time-to-time, acquire series preferred stock in the open market by tender offer, exchange offer, or otherwise. The Corporation's decision to make such acquisitions is dependent on many factors, including market conditions in effect at the time of any contemplated acquisition.

## COMMON STOCK

On January 22, 2004, the Corporation's Board of Directors declared a quarterly dividend of \$.12 per common share, payable April 1, 2004, to stockholders of record as of March 15, 2004.

On June 6, 2002, the Corporation announced a three-for-two split of the Corporation's Common Stock, effected in the form of a dividend, issued July 15, 2002, to stockholders of record as of the close of business on July 1, 2002. Accordingly, all common share and per common share data have been adjusted to reflect this stock split.

In the third quarter of 2003, the Corporation issued 50.0 million shares of its common stock in a public offering for approximately \$1.1 billion, net of issuance costs. The shares were issued under the Corporation's existing shelf registration statement. The Corporation used the proceeds to repurchase the same number of shares at the same price from the estate of the Corporation's former Chairman and Chief Executive Officer. The estate has the right to cause the sale of shares through a registration rights agreement entered into in 1991 at the time of the Corporation's initial public offering. The issuance and repurchase were done to satisfy the Corporation's obligation related to the sale of shares by the estate. The sale and repurchase of common stock did not impact total common stock outstanding or capital levels.

**OTHER COMPREHENSIVE INCOME COMPONENTS** (dollars in thousands)

Year Ended December 31,	2003	2002	2001
<b>Before Tax</b>			
Foreign currency translation	\$352,800	\$140,757	\$(28,984 )
Net unrealized (losses) gains on investment securities available-for-sale and other financial instruments	(7,283 )	(51 )	29,764
Minimum benefit plan liability adjustment	(16,854 )	(6,734 )	—
Other comprehensive income, before tax	\$328,663	\$133,972	\$780
<b>Applicable Income Tax</b>			
Foreign currency translation	\$—	\$—	\$—
Net unrealized gains on investment securities available-for-sale and other financial instruments	10,001	3,271	10,689
Minimum benefit plan liability adjustment	(5,916 )	(2,458 )	—
Other comprehensive income tax expense	\$4,085	\$813	\$10,689
<b>Net of Tax</b>			
Foreign currency translation	\$352,800	\$140,757	\$(28,984 )
Net unrealized (losses) gains on investment securities available-for-sale and other financial instruments	(17,284 )	(3,322 )	19,075
Minimum benefit plan liability adjustment	(10,938 )	(4,276 )	—
Other comprehensive income (loss), net of tax	\$324,578	\$133,159	\$(9,909 )

**NOTE 19: COMPREHENSIVE INCOME**

Statement No. 130 requires the impact of foreign currency translation, unrealized gains or losses on the Corporation's investment securities available-for-sale and other financial instruments, and changes in certain minimum benefit plan liabilities, to be included in other comprehensive income. The components of other comprehensive income on a before tax and net of tax basis are presented in the above table.

Favorable foreign currency translation for the year ended December 31, 2003 was primarily related to the strengthening of foreign currencies against the U.S. dollar.

**NOTE 20: EARNINGS PER COMMON SHARE**

Earnings per common share is computed using net income applicable to common stock and weighted average common shares outstanding during the period. Earnings per common share—assuming dilution is computed using net income applicable to

common stock and weighted average common shares outstanding during the period after consideration of the potential dilutive effect of common stock equivalents, based on the treasury stock method using an average market price for the period. There were 34.7 million stock options with an average exercise price of \$22.91 per share outstanding at December 31, 2003, which were not included in the computation of earnings per common share—assuming dilution for 2003 as a result of the stock options' exercise prices being greater than the average market price of the common shares. These stock options expire from 2010 through 2012. There were 20.6 million stock options with an average option price of \$23.90 per share outstanding at December 31, 2002, which were not included in the computation of earnings per common share—assuming dilution for 2002 as a result of the stock options' exercise prices being greater than the average market price of the common shares. These stock options expire from 2010 through 2012. There were 17.0 million stock options with an average price of \$21.71 per

**COMPUTATION OF EARNINGS PER COMMON SHARE**  
(dollars in thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001
<b>Earnings per Common Share</b>			
Net income	\$2,338,104	\$1,765,954	\$1,694,291
Less: preferred stock dividend requirements	14,064	14,178	14,142
Net income applicable to common stock	\$2,324,040	\$1,751,776	\$1,680,149

Weighted average common shares outstanding (000)	<u>1,278,166</u>	<u>1,277,787</u>	<u>1,277,745</u>
Earnings per common share	<u>\$1.82</u>	<u>\$1.37</u>	<u>\$1.31</u>
<b>Earnings per Common Share—Assuming Dilution</b>			
Net income	<u>\$2,338,104</u>	<u>\$1,765,954</u>	<u>\$1,694,291</u>
Less: preferred stock dividend requirements	<u>14,064</u>	<u>14,178</u>	<u>14,142</u>
Net income applicable to common stock	<u>\$2,324,040</u>	<u>\$1,751,776</u>	<u>\$1,680,149</u>
Weighted average common shares outstanding (000)	<u>1,278,166</u>	<u>1,277,787</u>	<u>1,277,745</u>
Net effect of dilutive stock options (000)	<u>16,976</u>	<u>24,925</u>	<u>36,485</u>
Weighted average common shares outstanding and common stock equivalents (000)	<u>1,295,142</u>	<u>1,302,712</u>	<u>1,314,230</u>
Earnings per common share-assuming dilution	<u>\$1.79</u>	<u>\$1.34</u>	<u>\$1.28</u>

share outstanding at December 31, 2001, which were not included in the computation of earnings per common share—assuming dilution for 2001 as a result of the stock options' exercise price being greater than the average market price of the common shares. These stock options expire in 2010 and 2011.

## NOTE 21: INCOME TAXES

The following is a reconciliation of the federal statutory income taxes to the Corporation's reported income taxes:

### RECONCILIATION OF FEDERAL STATUTORY INCOME TAXES (dollars in thousands)

Year Ended December 31,	2003	2002	2001
Income before income taxes	\$3,659,005	\$2,785,416	\$2,715,210
Statutory tax rate	35 %	35 %	35 %
Income tax at statutory tax rate	1,280,652	974,896	950,324
State taxes, net of federal benefit	31,321	23,951	30,321
Other	8,928	20,615	40,274
Total income taxes	\$1,320,901	\$1,019,462	\$1,020,919

The components of the Corporation's income tax expense related to continued operations are as follows:

### COMPONENTS OF INCOME TAX EXPENSE

(dollars in thousands)

Year Ended December 31,	2003	2002	2001
<b>Current Income Taxes</b>			
U.S. federal	\$1,095,826	\$1,017,511	\$1,020,232
U.S. state and local	48,186	36,848	46,648
Foreign	178,869	116,810	65,306
Total current income taxes	1,322,881	1,171,169	1,132,186
<b>Deferred Income Taxes</b>			
U.S. federal, state, and local	(669 )	(143,601 )	(125,324 )
Foreign	(1,311 )	(8,106 )	14,057
Total deferred income taxes	(1,980 )	(151,707 )	(111,267 )
Total income taxes	\$1,320,901	\$1,019,462	\$1,020,919

Foreign subsidiaries contributed approximately 15.5% in 2003, 14.7% in 2002, and 12.2% in 2001 to consolidated income before income taxes. No U.S. income taxes have been provided on the accumulated undistributed earnings of foreign subsidiaries, totaling \$1.3 billion at December 31, 2003, which continue to be reinvested. It is not practicable to determine the amount of any additional U.S.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred tax assets and liabilities are as follows:

### SUMMARY OF DEFERRED TAXES (dollars in thousands)

December 31,	2003	2002
<b>Deferred Tax Assets</b>		
Reserve for possible credit losses and the estimate of uncollectible accrued interest and fees	\$292,235	\$277,625
Intangible assets and other similar items	108,386	107,660
Foreign tax loss carryforwards and tax credits	4,142	2,943
Other deferred tax assets	432,011	377,206
Total deferred tax assets	836,774	765,434
Valuation allowance	(4,142 )	(982 )
Total deferred tax assets less valuation allowance	832,632	764,452
<b>Deferred Tax Liabilities</b>		
Securitized and related items	(380,350)	(350,192)
Other deferred tax liabilities	(129,252)	(107,842)
Total deferred tax liabilities	(509,602)	(458,034)
Net deferred tax assets	\$323,030	\$306,418

## NOTE 22: EMPLOYEE BENEFITS

The Corporation has a noncontributory defined benefit pension plan ("Pension Plan") and a supplemental executive retirement plan ("SERP").

### PENSION PLAN

The Corporation's Pension Plan covers substantially all people employed by the Corporation in the United States who meet certain age and service requirements. Retirement benefits are based on the number of years of benefit service and a percentage of the participant's average annual compensation during the five highest paid consecutive years of their last 10 years of employment. The Corporation's funding policy is to have the market value of the Pension Plan's assets achieve a target-funded ratio between 100% and 120% on a projected benefit obligation ("PBO") basis, and that only tax-deductible contributions may be made. This target-funded ratio is intended to accelerate the time frames when the Pension Plan will no longer require additional annual contributions. The target-funded ratio was not achieved in 2003, nor is it likely to be achieved in 2004 as a result of the capital market and interest rate environments, as well as limitations on permissible tax deductible contributions to the Pension Plan. The target-funded ratio is calculated by dividing the fair market value of plan assets by the PBO; at December 31, 2003, the Pension Plan had a target-funded ratio of 73%, based on the fair market value of the Pension Plan's assets of \$378.4 million and a PBO of \$517.8 million. At

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income taxes that might be payable in the event that these earnings are repatriated. The Corporation has foreign tax loss carryforwards, the tax effect of which is \$4.1 million, that begin to expire in 2017. At December 31, 2003, the Corporation had a valuation allowance in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("Statement No. 109") of \$4.1 million, related to foreign tax loss carryforwards.

December 31, 2002, the Pension Plan had a target-funded ratio of 66%, based on the fair market value of the Pension Plan's assets of \$263.3 million and a PBO of \$397.2 million. As of December 31, 2003 and 2002, the Pension Plan had a funded ratio on an accumulated benefit obligation ("ABO") basis of 135% and 122%, respectively.



**BENEFIT PLAN FINANCIAL INFORMATION** (dollars in thousands)

Year Ended December 31,	Pension Plan		SERP Plan		Total			
	2003	2002	2003	2002	2003	2002		
<b>Change in Benefit Obligation</b>								
Net benefit obligation, beginning of year	\$ 397,182	\$ 267,422	\$ 176,580	\$ 111,584	\$ 573,762	\$ 379,006		
Service cost-benefits earned during the year	49,775	37,813	15,090	13,115	64,865	50,928		
Interest cost on projected benefit obligation	28,899	23,349	12,964	11,299	41,863	34,648		
Actuarial loss	45,551	58,574	17,483	20,381	63,034	78,955		
Plan amendments	–	12,155	7,218	21,672	7,218	33,827		
Gross benefits paid	(3,561 )	(2,131 )	(1,740 )	(1,471 )	(5,301 )	(3,602 )		
Net benefit obligation, end of year	\$ 517,846	\$ 397,182	\$ 227,595	\$ 176,580	\$ 745,441	\$ 573,762		
<b>Change in Plan Assets</b>								
Fair value of plan assets, beginning of year	\$ 263,336	\$ 247,460	\$ –	\$ –	\$ 263,336	\$ 247,460		
Actual return on plan assets	49,632	(39,047 )	–	–	49,632	(39,047 )		
Employer contributions	69,000	57,054	1,740	1,471	70,740	58,525		
Gross benefits paid	(3,561 )	(2,131 )	(1,740 )	(1,471 )	(5,301 )	(3,602 )		
Fair value of plan assets, end of year	\$ 378,407	\$ 263,336	\$ –	\$ –	\$ 378,407	\$ 263,336		
Funded status	\$ (139,439)	\$ (133,846)	\$ (227,595)	\$ (176,580)	\$ (367,034)	\$ (310,426)		
Unrecognized net actuarial loss	196,528	185,152	43,224	25,845	239,752	210,997		
Unrecognized prior service cost	12,400	13,485	44,399	40,359	56,799	53,844		
Unrecognized net transition obligation	–	–	1,694	2,109	1,694	2,109		
Net amount recognized	\$ 69,489	\$ 64,791	\$ (138,278)	\$ (108,267)	\$ (68,789 )	\$ (43,476 )		
<b>Amounts Recognized in the Consolidated Statements of Financial Condition</b>								
Prepaid benefit cost	\$ 69,489	\$ 64,791	\$ –	\$ –	\$ 69,489	\$ 64,791		
Accrued benefit cost	–	–	(138,278)	(108,267)	(138,278)	(108,267)		
Additional minimum liability	–	–	(69,681 )	(49,202 )	(69,681 )	(49,202 )		
Intangible asset	–	–	46,093	42,468	46,093	42,468		
Accumulated other comprehensive income	–	–	23,588	6,734	23,588	6,734		
Net amount recognized	\$ 69,489	\$ 64,791	\$ (138,278)	\$ (108,267)	\$ (68,789 )	\$ (43,476 )		
<b>Significant Assumptions used to Determine Benefit Obligations, End of Year</b>								
Discount rate	6.00	%	6.75	%	6.00	%	6.75	%
Rate of compensation increase	5.00		5.50		5.00		5.50	
Expected rate of return on plan assets	9.00		9.00		9.00		9.00	

**SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

Plan and the SERP plan by approximately \$87 million and \$16 million, respectively, for the year ended December 31, 2003.

The Corporation's SERP plan, established in 1991, provides certain officers with supplemental retirement benefits in excess of limits imposed on qualified plans by federal tax law. The SERP plan provides a retirement benefit up to a maximum of 80% of the participants' highest average salary for any 12 month period during the 72 months preceding retirement. The SERP plan is unfunded, however, the Corporation has life insurance policies on certain participants of the SERP plan with a cash surrender value of \$83.9 million and \$53.5 million at December 31, 2003 and 2002, respectively.

Financial information for both the Pension Plan and the SERP plan is presented in the above table. MBNA Corporation uses a measurement date of September 30 for both its Pension plan and SERP plan.

### **BENEFIT PLAN FINANCIAL INFORMATION**

In 2003, the Corporation decreased the discount rate used to value its PBO for both the Pension Plan and the SERP plan to 6.00% from 6.75% in 2002, to reflect the current interest rate environment. The change in the discount rate increased the PBO for the Pension

Net periodic benefit cost for the Pension Plan and the SERP plan increased by \$29.5 million in 2003 as compared to 2002, primarily as a result of a lower than assumed return on plan assets, \$11.5 million; a lower assumed discount rate, \$9.7 million; and normal operations of the plans including additional participants, \$8.3 million. In 2003, the Corporation decreased the expected rate of compensation increase for both the Pension Plan and the SERP plan to 5.00% from 5.50% in 2002 after re-evaluating the expected future rate of compensation increases. This was done to reflect the long-term expectation of compensation rate increases and to maintain an appropriate spread between this assumption and the discount rate assumptions.

In 2003, the Corporation retained its expected return on plan assets assumption for both the Pension Plan and the SERP Plan. The expected return on plan assets assumption was determined based on the Pension Plan and SERP Plan's asset allocation, a review of historic market performance, historical plan performance and a forecast of expected future asset returns.

## COMPONENTS OF NET PERIODIC BENEFIT COST *(dollars in thousands)*

Year Ended December 31, 2003	Pension Plan			SERP Plan			Total		
	2002	2001	2003	2002	2001	2003	2002	2001	
Service cost-benefits earned during the year	\$ 49,775	\$ 37,813	\$ 27,043	\$ 15,090	\$ 13,115	\$ 8,656	\$ 64,865	\$ 50,928	\$ 35,699
Interest cost on projected benefit obligation	28,899	23,349	16,844	12,964	11,299	7,846	41,863	34,648	24,690
Expected return on plan assets	(26,050)	(25,579)	(25,406)	–	–	–	(26,050)	(25,579)	(25,406)
Net amortization and deferral:									
Prior service cost	1,085	730	(112 )	3,136	2,598	1,221	4,221	3,328	1,109
Actuarial loss (gain)	10,593	2,910	(2,131 )	146	–	–	10,739	2,910	(2,131 )
Transition (asset) obligation	–	(69 )	(70 )	415	415	415	415	346	345
Net amortization and deferral	11,678	3,571	(2,313 )	3,697	3,013	1,636	15,375	6,584	(677 )
Net periodic benefit cost	\$ 64,302	\$ 39,154	\$ 16,168	\$ 31,751	\$ 27,427	\$ 18,138	\$ 96,053	\$ 66,581	\$ 34,306

### Assumptions Used to Determine Net Periodic Benefit Cost

Discount rate	6.75 %	7.50 %	8.00 %	6.75 %	7.50 %	8.00 %
Rate of compensation increase	5.50	6.00	6.00	5.50	6.00	6.00
Expected return on plan assets	9.00	9.50	9.50	9.00	9.50	9.50

Plan amendments adopted during 2003 resulted in a \$7.2 million increase in the net benefit obligation. Additional participants in the SERP plan accounted for this increase.

Plan amendments adopted during 2002 resulted in a \$33.8 million increase in the net benefit obligation. Additional participants in the SERP plan accounted for \$21.7 million of the increase. The remaining \$12.1 million was related to the granting of benefit credited service for participants' pre-acquisition service.

The Corporation anticipates, based on current conditions, that net periodic benefit cost for the Pension Plan and the SERP plan will increase by \$20.9 million in 2004 primarily because of a lower assumed discount rate and normal operations of the plans, partially offset by a lower assumed rate of compensation increase.

### COMPONENTS OF NET PERIODIC BENEFIT COST

The components of net periodic benefit cost for the Pension Plan and SERP Plan are presented in the above table.

### PLAN ASSETS

The purpose of the tactical asset allocation component of the Pension Plan is to take advantage of opportunities when market conditions are favorable for equity, fixed income or cash. This exposure has historically provided plan assets an opportunity to earn equity-like returns with volatility similar to that of fixed income. All allocations are rebalanced after they migrate +/- 5 percentage points from their target allocation.

The obligations of the Pension Plan are dominated by obligations for active employees. Only 2% of the obligation is attributable to retirees. Because the timing of expected benefit payments is so far in the future and the size of the plan assets are small relative to the Corporation's assets, the investment strategy is to allocate a large portion of assets to equities, which the Corporation believes will provide the highest return over future periods. The fixed income assets are invested in long duration debt securities in order to better match the duration of the plan obligations.

The Corporation periodically conducts an asset liability modeling study to ensure the investment strategy is aligned with the profile of the obligations. The long-term goals are to maximize the plan funded status, minimize contributions and pension expense, while

The Corporation's Pension Plan asset allocation at December 31, 2003 and 2002, and the target allocation for 2004, are as follows:

taking into consideration the potential volatility risks of each of these items.

Year Ended December 31, <b>Asset Category</b>	Target Allocation For 2004		Percentage of Plan Assets at Year End	
	2004	2003	2003	2002
Equity securities	75	%	71	%
Tactical asset allocation	10		10	10
Debt securities	15		19	25
Total	100	%	100	%

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the employee benefit plans are presented in the table below.

#### EMPLOYEE BENEFIT PLAN INFORMATION (dollars in thousands)

December 31,	2003	2002
<b>Pension Plan</b>		
Projected benefit obligation	\$517,846	\$397,182
Accumulated benefit obligation	279,696	216,626
Fair value of plan assets	378,407	263,336
<b>SERP Plan</b>		
Projected benefit obligation	\$227,595	\$176,580
Accumulated benefit obligation	207,959	157,469
Fair value of plan assets	–	–

#### EXPECTED CASH FLOWS

A summary of the Corporation's estimated pension benefit cash flows for the next ten years is presented in the following table.

#### EXPECTED CASH FLOWS (dollars in thousands)

	Pension Plan	SERP Plan	Total
<b>Expected Employer Contributions</b>			
2004 to plan trusts	\$75,000	\$–	\$75,000
2004 to plan participants	–	3,097	3,097
<b>Expected Benefit Payments</b>			
2004	2,238	3,097	5,335
2005	3,063	7,577	10,640
2006	4,134	10,891	15,025
2007	5,550	13,229	18,779
2008	7,469	14,823	22,292
2009 through 2013	87,133	111,092	198,225

#### 401(k) PLUS SAVINGS PLAN

The MBNA Corporation 401(k) Plus Savings Plan ("401(k) Plan") is a defined contribution plan that is intended to qualify under section 401(k) of the Internal Revenue Code. The 401(k) Plan covers substantially all people in the United States who have been employed by the Corporation for one or more years and have completed at least one thousand hours of service in any one-year. For these people, the Corporation automatically contributes 1% of an eligible person's base salary in cash. Additionally, eligible participants may contribute up to a maximum of 25% of base salary on a pre-tax basis and 15% on an after-tax basis, with the first 6% matched at a rate of 50% by the Corporation in cash. The

#### OTHER PLANS

The Corporation's foreign bank subsidiaries each have a pension plan for their employees. MBNA Europe has a pension plan that covers substantially all of its people who meet certain age and service requirements. MBNA Europe contributes 6% of an eligible person's base salary in cash. In addition, eligible participants may contribute up to a maximum of 15% of base salary, with the first 6% matched at a rate of 50% by MBNA Europe in cash. MBNA Canada has a registered retirement savings plan that covers substantially all of its people who meet certain age and service requirements. MBNA Canada contributes 5% of an eligible person's base salary in cash. In addition, eligible participants may contribute up to a maximum of 10% of base salary, with the first 6% matched at a rate of 50% by MBNA Canada in cash. MBNA Espana contributes 3% on the first 31,284 of salary and 9% on the salary above 31,284. In addition, eligible participants may contribute up to a maximum of 6% of base salary, with the first 3% matched at a rate of 50% by MBNA Espana in cash.

#### POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Corporation and its subsidiaries provide certain health care and life insurance benefits for certain people upon early retirement through normal retirement age. Initially, a plan was established for people aged 45 and older with at least 10 years of service at December 31, 1993. The plan was closed to future enrollment effective December 31, 1998. The plan was extended on January 1, 1999, to people aged 40 and older with at least five years of service. A person must meet the requirements for early retirement status to be eligible for these benefits. The Corporation records the estimated cost of benefits provided to its former or inactive employees on an accrual basis. The expenses for these benefits are charged to other operating expense and were not material to the Corporation's audited consolidated financial statements.

At September 30, 2003, a one-percentage-point change in assumed health care cost trend rates would have the following effect:

#### HEALTHCARE EFFECT (dollars in thousands)

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on postretirement benefit obligation	\$4,917	\$(4,364)
Effect on total of service cost and interest cost	543	(480)

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Corporation recorded \$28.6 million, \$27.0 million, and \$23.1 million to other operating expense for the costs related to the 401(k) Plan for the years ended 2003, 2002, and 2001, respectively.

## NOTE 23: STOCK-BASED EMPLOYEE COMPENSATION

The Corporation's 1997 Long Term Incentive Plan ("1997 Plan") and 1991 Long Term Incentive Plan ("1991 Plan") authorize the issuance of shares of common stock pursuant to incentive and nonqualified stock options and restricted share awards to officers, directors, key employees, consultants, and advisors of the Corporation. Currently, all stock options and restricted stock awards are granted from the 1997 Plan.

The 1997 Plan authorizes, subject to certain exceptions and additional limitations, grants of stock options and restricted shares for an indefinite number of shares of common stock, provided that immediately after the grants, the sum of the number of outstanding stock options and restricted shares does not exceed 10% of fully diluted shares outstanding as defined in the 1997 Plan. At December 31, 2003, 2002, and 2001, the amount of shares of common stock available for future grants under the 1997 Plan were 26.9 million shares, 15.8 million shares, and 11.1 million shares, respectively. The maximum number of restricted stock awards that can be granted in any calendar year is 3 million shares, not including restricted stock awards in lieu of payment of cash bonuses. The maximum number of stock options that can be granted to any one participant in any calendar year is 3.38 million options.

Stock options are granted with an exercise price that is not less than the fair market value of the Corporation's Common Stock on the date the option is granted, and none may be exercised more than 10 years from the date of grant. Stock options granted to selected officers and key employees of the Corporation normally become exercisable for one-fifth of the common shares subject to the options each year and continue to become exercisable for up to one-fifth per year until they are completely exercisable after five years. Stock options granted to nonemployee directors and certain selected officers are exercisable immediately.

The Corporation granted 1.6 million stock options in 2003, 4.6 million stock options in 2002, and 6.8 million stock options in 2001 which were immediately exercisable following the effective date of the grant. During 2003, 2002, and 2001, there were no performance-based common stock options granted.

Restricted common shares were also issued under the 1997 Plan to the Corporation's senior officers for a total of 5.4 million common shares, including 2.4 million common shares issued in lieu of

### SUMMARY OF STOCK OPTIONS OUTSTANDING *(shares in thousands)*

### SUMMARY OF STOCK OPTION PLANS ACTIVITY

*(shares in thousands)*

	Number of Shares	Weighted Average Exercise Price
<b>2003</b>		
Options outstanding, beginning of year	110,728	\$ 16.05
Granted	12,514	20.54
Exercised	(23,708)	11.63
Canceled	(337)	19.78
Options outstanding, end of year	99,197	17.66
Options exercisable, end of year	71,526	16.17
Weighted average fair value of options granted during the year	\$ 7.02	
<b>2002</b>		
Options outstanding, beginning of year	113,026	\$ 12.66
Granted	20,675	23.88
Exercised	(22,521)	6.15
Canceled	(452)	19.90
Options outstanding, end of year	110,728	16.05
Options exercisable, end of year	80,748	14.11
Weighted average fair value of options granted during the year	\$ 8.37	
<b>2001</b>		
Options outstanding, beginning of year	101,923	\$ 9.80
Granted	24,125	21.41
Exercised	(12,961)	6.48
Canceled	(61)	11.23
Options outstanding, end of year	113,026	12.66
Options exercisable, end of year	78,890	10.82
Weighted average fair value of options granted during the year	\$ 7.50	

payment of cash bonuses in 2003, 3.0 million common shares in 2002, and 2.9 million common shares in 2001. The restricted common shares issued had an approximate aggregate market value of \$111.4 million, \$69.1 million, and \$66.9 million at the time of grant for 2003, 2002, and 2001, respectively. The market value of

these restricted shares at the date of grant is amortized into expense over a period that approximates the restriction period, which is 10 years, or less if the restricted common shares had a specific vesting date less than 10 years from date of grant. If the restrictions lapse, generally upon death, disability or retirement, or are released sooner, any remaining unamortized market value of the restricted shares is immediately expensed. At December 31, 2003 and 2002, the unamortized compensation expense related to the restricted stock awards was \$183.3 million and \$158.2 million, respectively.

December 31, 2003			Options Outstanding		Options Exercisable		
Range of Exercise Prices			Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 1.00	to	\$ 4.99	4,032	1.55 years	\$ 4.38	4,032	\$ 4.38
5.00	to	9.99	11,422	3.05	7.83	11,422	7.83
10.00	to	14.99	19,481	5.16	14.20	17,599	14.23
15.00	to	19.99	12,329	5.40	17.69	12,138	17.69
20.00	to	25.00	51,933	8.08	22.14	26,335	22.18
1.00	to	25.00	<u>99,197</u>			<u>71,526</u>	



To the extent stock options are exercised or restricted shares are awarded from time to time under the Corporation's Long Term Incentive Plans, the Board of Directors has approved the purchase, on the open market or in privately negotiated transactions, of the number of common shares issued. The Corporation considers these stock repurchases in maintaining its liquidity position. During 2003, the Corporation purchased 29.2 million common shares for \$618.3 million in connection with the issuance of restricted stock and the exercise of stock options and received \$275.8 million in proceeds from the exercise of those stock options. During 2002, the Corporation purchased 25.5 million common shares for \$615.5 million in connection with the issuance of restricted stock and the exercise of stock options and received \$138.4 million in proceeds from the exercise of those stock options. During 2001, the Corporation purchased 15.9 million common shares for \$376.1 million in connection with the issuance of restricted stock and the exercise of stock options and received \$84.0 million in proceeds from the exercise of those stock options.

#### NOTE 24: OTHER OPERATING EXPENSE

##### OTHER EXPENSE COMPONENT OF OTHER OPERATING EXPENSE (dollars in thousands)

Year Ended December 31,	2003	2002	2001
Purchased services	\$582,724	\$544,104	\$498,809
Advertising	421,965	315,393	268,897
Collection	77,482	54,872	46,260
Stationery and supplies	41,833	48,073	45,477
Service bureau	83,171	75,444	63,375
Postage and delivery	459,592	366,129	354,226
Telephone usage	89,448	86,562	84,900
Loan receivable fraud losses	139,193	160,639	172,366
Amortization of intangible assets	410,973	348,727	381,792
Other	207,031	248,317	274,329
<b>Total other expense</b>	<b>\$2,513,412</b>	<b>\$2,248,260</b>	<b>\$2,190,431</b>

#### NOTE 25: DIVIDEND LIMITATIONS

The payment of dividends in the future and the amount of such dividends, if any, will be at the discretion of the Corporation's Board of Directors. The payment of preferred and common stock dividends by the Corporation may be limited by certain factors, including regulatory capital requirements, broad enforcement powers of the federal bank regulatory agencies, and tangible net worth maintenance requirements under the Corporation's revolving credit facilities. The payment of common stock dividends may also be limited by the terms of the Corporation's preferred stock. If the Corporation has not paid scheduled dividends on the preferred stock, or declared the dividends and set aside funds for payment, the Corporation may not declare or pay any cash dividends on the common stock. In addition, if the Corporation defers interest for

series, on the Corporation's junior subordinated deferrable interest debentures, the Corporation may not be permitted to declare or pay any cash dividends on the Corporation's Common Stock or interest on debt securities that have equal or lower priority than the junior subordinated deferrable interest debentures.

#### RETURN ON AVERAGE TOTAL ASSETS AND AVERAGE STOCKHOLDERS' EQUITY

Year Ended December 31,	2003	2002	2001
Return on average total assets	4.16 %	3.67 %	4.16 %
Return on average stockholders' equity	22.98	21.29	24.07
Average stockholders' equity to average total assets	18.09	17.22	17.27
Dividend payout ratio	20.11	20.15	18.75

The Corporation is a legal entity separate and distinct from its banking and other subsidiaries. The primary source of funds for payment of preferred and common stock dividends by the Corporation is dividends received from the Bank. The amount of dividends that a national bank may declare in any year is subject to certain regulatory restrictions. Generally, dividends declared in a given year by a national bank are limited to its net profit, as defined by regulatory agencies, for that year, combined with its retained net income for the preceding two years, less any required transfer to surplus or to a fund for the retirement of any preferred stock. In addition, a national bank may not pay any dividends in an amount greater than its undivided profits. Also, a national bank may not declare dividends if such declaration would leave the bank inadequately capitalized. Therefore, the ability of the Bank to declare dividends will depend on its future net income and capital requirements. At December 31, 2003, the amount of undivided profits available for declaration and payment of dividends from the Bank to the Corporation was \$4.4 billion. Also, banking regulators have indicated that national banks should generally pay dividends only out of current operating earnings. Following this practice, the amount of undivided profits available for the declaration and payment of dividends from the Bank to the Corporation was \$1.8 billion at December 31, 2003. Payment of dividends by the Bank to the Corporation, however, can be further limited by federal bank regulatory agencies.

The Bank's payment of dividends to the Corporation may also be limited by a tangible net worth requirement under the Corporation's senior syndicated revolving credit facility (discussed under "Note 27: Commitments and Contingencies"). This facility was not drawn upon at December 31, 2003. If this facility had been drawn upon at December 31, 2003, the amount of retained earnings available for declaration of dividends would have been limited to \$3.2 billion.

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consecutive periods covering 10 semiannual periods or 20  
consecutive quarterly periods, depending on the

**CAPITAL ADEQUACY** (dollars in thousands)

	Actual		For Capital Adequacy Purposes			To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
<b>December 31, 2003</b>							
Tier 1 Capital (to Risk-Weighted Assets):							
MBNA Corporation	\$11,998,873	18.47 %	\$2,598,126	4.00 %	(a)		
MBNA America Bank, N.A	10,286,026	16.38	2,512,467	4.00	\$3,768,700	6.00	%
MBNA America (Delaware), N.A	526,630	28.38	74,214	4.00	111,321	6.00	
Total Capital (to Risk-Weighted Assets):							
MBNA Corporation	14,409,042	22.18	5,196,252	8.00	(a)		
MBNA America Bank, N.A	12,644,844	20.13	5,024,933	8.00	6,281,167	10.00	
MBNA America (Delaware), N.A	551,920	29.75	148,428	8.00	185,535	10.00	
Tier 1 Capital (to Average Assets):							
MBNA Corporation	11,998,873	20.52	2,338,976	4.00	(a)		
MBNA America Bank, N.A	10,286,026	18.52	2,221,105	4.00	2,776,382	5.00	
MBNA America (Delaware), N.A	526,630	32.47	64,870	4.00	81,088	5.00	
<b>December 31, 2002</b>							
Tier 1 Capital (to Risk-Weighted Assets):							
MBNA Corporation	\$9,466,935	15.73 %	\$2,407,978	4.00 %	(a)		
MBNA America Bank, N.A	7,596,885	12.58	2,416,236	4.00	\$3,624,354	6.00	%
MBNA America (Delaware), N.A	431,918	28.06	61,579	4.00	92,368	6.00	
Total Capital (to Risk-Weighted Assets):							
MBNA Corporation	11,828,100	19.65	4,815,955	8.00	(a)		
MBNA America Bank, N.A	9,914,225	16.41	4,832,472	8.00	6,040,590	10.00	
MBNA America (Delaware), N.A	451,999	29.36	123,157	8.00	153,947	10.00	
Tier 1 Capital (to Average Assets):							
MBNA Corporation	9,466,935	18.55	2,041,906	4.00	(a)		
MBNA America Bank, N.A	7,596,885	15.81	1,921,607	4.00	2,402,009	5.00	
MBNA America (Delaware), N.A	431,918	23.21	74,446	4.00	93,058	5.00	

(a) Not applicable for bank holding companies.

**NOTE 26: CAPITAL ADEQUACY**

The Corporation is subject to risk-based capital guidelines adopted by the Federal Reserve Board for bank holding companies. The Bank and MBNA Delaware are also subject to similar capital requirements adopted by the Office of the Comptroller of the Currency. Under these requirements, the federal bank regulatory agencies have established quantitative measures to ensure that minimum thresholds for Tier 1 Capital, Total Capital, and Leverage ratios are maintained. Failure to meet these minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by the federal bank regulators that, if undertaken, could have a direct material effect on the Corporation's, the Bank's, and MBNA Delaware's consolidated financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation,

defined under the federal bank regulatory guidelines. The risk-based capital ratios have been computed in accordance with regulatory accounting practices. At December 31, 2003, no conditions or events had occurred that changed the Corporation's classification as "adequately capitalized" and the Bank's or MBNA Delaware's classification as "well capitalized."

MBNA Europe and MBNA Canada are regulated by the Financial Services Authority ("FSA") and the Office of the Superintendent of Financial Institutions ("OSFI"), respectively, in regards to capital adequacy.

**NOTE 27: COMMITMENTS AND CONTINGENCIES**

A loan commitment, commonly referred to as a line of credit, is an agreement to lend to a Customer subject to the Customer's

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the Bank, and MBNA Delaware must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

The Corporation's, the Bank's, and MBNA Delaware's capital amounts and classification are also subject to qualitative judgments by the federal bank regulators about components, risk weightings, and other factors. At December 31, 2003 and 2002, the Corporation's, the Bank's, and MBNA Delaware's capital exceeded all minimum regulatory requirements to which they are subject, and the Bank and MBNA Delaware were "well-capitalized" as

compliance with the Customer's account agreement. The Corporation can reduce or cancel a credit card commitment by providing the required prior notice to the Customer, or without notice if permitted by law. The Corporation had outstanding lines of credit of \$681.6 billion and \$622.7 billion committed to its Customers at December 31, 2003 and 2002, respectively. Of those total commitments, \$563.1 billion and \$515.4 billion were unused at December 31, 2003 and 2002, respectively. While these amounts represent the total available lines of credit to Customers, the Corporation has not experienced and does not anticipate that all of its Customers will exercise their entire available line of credit at any given point in time.

Also, the Corporation holds Community Development investments in the form of limited partnership interests that qualify under the Community Reinvestment Act. Unfunded commitments for which the Corporation has accrued for, related to these investments were \$110.8 million and \$107.3 million at December 31, 2003 and 2002, respectively. The Corporation also had unfunded commitments related to these investments of \$41.3 million and \$18.6 million at December 31, 2003 and 2002, respectively, which were not accrued for in accordance with GAAP. The Corporation may not cancel these commitments.

The Corporation, the Bank, and their affiliates are commonly subject to various pending or threatened legal proceedings, including certain class actions, arising out of the normal course of business. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of these matters will be. However, the Corporation believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on the Corporation's consolidated financial condition or results of operations. Amounts that have been recognized for such losses as of December 31, 2003 and 2002 and not yet paid are included in the audited consolidated statements of financial condition under accrued expenses and other liabilities and are not material to the audited consolidated financial statements at December 31, 2003 and 2002, respectively.

The Bank, MBNA Europe, and the Corporation have a \$2.5 billion senior unsecured syndicated revolving credit facility committed through July 2006, available to the Bank and MBNA Europe with sublimit availability in an amount of \$500.0 million for the Corporation. The Bank unconditionally and irrevocably guarantees the obligations of MBNA Europe under the facility. This facility may be used for general corporate purposes and was not drawn upon at December 31, 2003.

Advances from the \$2.5 billion senior unsecured syndicated revolving credit facility are subject to covenants and conditions customary in a transaction of this nature. These conditions include requirements for both the Corporation and the Bank to maintain a minimum level of consolidated tangible net worth. These conditions also require the Bank to not permit its managed loan receivables 90 days or more past due plus nonaccruing receivables to exceed 6% of managed receivables, as defined by the agreement, and to maintain its regulatory capital ratios at or above regulatory "well-capitalized" requirements. In addition, these conditions require that the Corporation not permit its double leverage ratio (defined as the sum of the Corporation's intangible assets and investment in subsidiaries divided by total stockholders' equity) to exceed 1.25 and to maintain its regulatory capital ratios at or above regulatory minimum requirements. At December 31, 2003, the ratio of the Bank's managed loan receivables 90 days or more past due plus nonaccruing receivables to managed receivables was 2.36%, the Corporation's double leverage ratio was 1.04, and the

level of consolidated tangible net worth exceeded the minimum levels required.

MBNA Europe has a £325.0 million (approximately \$582.4 million at December 31, 2003) multi-currency syndicated revolving credit facility committed until June 2005. MBNA Europe may take advances under the facility subject to covenants and conditions customary in a transaction of this nature, including requirements for tangible net worth and account delinquencies. This facility is unconditionally and irrevocably guaranteed by the Bank. The facility may be used for general corporate purposes and was not drawn upon at December 31, 2003.

MBNA Canada has a CAD\$350.0 million (approximately \$270.4 million at December 31, 2003) multi-currency syndicated revolving credit facility committed through July 2004. During 2003, CAD\$315.0 million (approximately \$243.4 million at December 31, 2003) of the facility was extended to July 2006. MBNA Canada may take advances under the facility subject to covenants and conditions customary in a transaction of this nature. This facility is unconditionally and irrevocably guaranteed by the Bank. This facility may be used for general corporate purposes and was not drawn upon at December 31, 2003.

## NOTE 28: FOREIGN ACTIVITIES

### SELECTED FOREIGN FINANCIAL DATA

(dollars in thousands)

Year Ended December 31,	2003	2002	2001
<b>United Kingdom/Ireland/ Spain</b>			
Total assets	\$11,958,296	\$9,194,940	\$5,654,605
Total income	1,671,370	1,298,322	1,011,309
Income before income taxes	262,401	199,986	199,221
Net income	198,076	148,497	149,786
<b>Canada</b>			
Total assets	1,506,838	1,064,344	883,787
Total income	398,420	281,327	208,663
Income before income taxes	143,782	93,962	42,541
Net income	87,897	79,123	42,541
<b>Other Foreign</b>			
Total assets	2,377,345	2,426,402	1,000,939
Total income	40,068	22,029	43,111
Income before income taxes	(53,776 )	(13,973 )	(15,212 )
Net income	(34,686 )	(8,873 )	(6,651 )
<b>Total Foreign</b>			
Total assets	15,842,479	12,685,686	7,539,331
Total income	2,109,858	1,601,678	1,263,083
Income before income taxes	352,407	279,975	226,550
Net income	251,287	218,747	185,676
<b>Domestic</b>			
Total assets	43,270,876	40,171,060	37,908,614
Total income	9,574,506	8,829,315	8,881,638
Income before income taxes	3,306,598	2,505,441	2,488,660
Net income	2,086,817	1,547,207	1,508,615
<b>MBNA Corporation</b>			
Total assets	59,113,355	52,856,746	45,447,945
Total income	11,684,364	10,430,993	10,144,721
Income before income taxes	3,659,005	2,785,416	2,715,210
Net income	2,338,104	1,765,954	1,694,291

The Corporation's foreign activities are primarily performed through the Bank's two foreign bank subsidiaries, MBNA Europe, which has branches in Spain and Ireland, and MBNA Canada. The Bank's net investment in MBNA Europe was \$2.5 billion and in MBNA Canada was \$443.0 million at December 31, 2003. The Bank also has a foreign branch office that invests in interest-earning time deposits and accepts Eurodollar deposits. This branch also participates in a portion of the remaining undivided interests in loan principal receivables securitized by MBNA Europe.

Because certain foreign operations are integrated with many of the Bank's domestic operations, certain estimates and assumptions have been made to assign income and expense items between domestic and foreign operations. Amounts are allocated for interest costs to users of funds, capital invested, income taxes, and for other items incurred. The provision for possible credit losses is allocated based on specific charge-off experience and risk characteristics of the foreign loan receivables.

### FOREIGN LOAN RECEIVABLES DISTRIBUTION

(dollars in thousands)

December 31,	2003	2002
<b>Loans Held for Securitization</b>		
Credit card	\$2,798,190	\$1,830,914
Total loans held for securitization	2,798,190	1,830,914
<b>Loan Portfolio</b>		
Credit card	4,005,334	3,070,999
Other consumer	2,418,449	1,927,015
Total loan portfolio	6,423,783	4,998,014
Total loan receivables	\$9,221,973	\$6,828,928

### NOTE 29: RELATED PARTY TRANSACTIONS

The Corporation's directors, executive officers, certain members of their immediate families, and certain affiliated companies hold credit cards or other lines of credit issued by the Corporation on the same terms prevailing at the time for those issued to other persons. The outstanding amounts are included in loan receivables in the Corporation's audited consolidated statements of financial condition and were not material to the Corporation's financial results.

See Note 18: Stockholders' Equity—Common Stock for information about a related party transaction pertaining to the 2003 stock issuance.

### NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following presents the fair value of financial instruments at December 31, 2003 and 2002, whether or not recognized in the Corporation's audited consolidated statements of financial condition, for which it is practicable to estimate that value. In addition, the fair value of certain financial instruments and all nonfinancial instruments are excluded from the audited consolidated

flows. The derived fair value estimates cannot be substantiated by comparison to independent market values and, in many cases, could not be realized in an immediate settlement of the instrument. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

### FINANCIAL ASSETS

Cash and due from banks are carried at an amount that approximates fair value.

Money market instruments include interest-earning time deposits in other banks and federal funds sold. As a result of the short-term nature of these instruments, the carrying amounts reported in the audited consolidated statements of financial condition approximate these assets' fair values.

The fair value of investment securities is based on the market value of the individual investment security without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. Market value for investment securities is based on quoted market prices or dealer quotes.

The carrying value of loans held for securitization reported in the audited consolidated statements of financial condition approximates its fair value as a result of the short-term nature of these assets.

The carrying value of the Corporation's loan portfolio reported in the audited consolidated statements of financial condition approximates its fair value. The loan portfolio includes variable-rate loans, with interest rates that approximate current market rates, and fixed-rate loans, which can be repriced at any time by giving notice to the Customer.

The valuations of loans held for securitization and the loan portfolio do not include the value that relates to estimated cash flows from new and existing loans generated from current Customers over the remaining life of the loan receivables or the value of established Customer relationships. Accordingly, the fair values of loans held for securitization and the loan portfolio do not represent the underlying value of the Corporation's accounts.

Accrued income receivable includes interest and fee income earned but not yet received from investment securities and money market instruments, loan receivables, interest rate swap agreements, foreign exchange swap agreements, and insurance products. The carrying amount reported in the audited consolidated statements of financial condition approximates the fair value of these assets as a result of their relatively short-term nature.

The fair value of accounts receivable from securitization is determined by a review of each component. The interest-only strip receivable, cash reserve accounts, accrued interest and fees on securitized loans, and other subordinated retained interests are carried at amounts that approximate their fair values. The carrying values of the sale of new loan receivables, accrued servicing fees,

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statements of financial condition in accordance with GAAP. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash

and other accounts receivable from securitization reported in the audited consolidated statements of financial condition approximate their fair values as a result of the short-term nature of these assets.



**CARRYING VALUES AND ESTIMATED FAIR VALUES OF THE CORPORATION'S FINANCIAL ASSETS** (dollars in thousands)

December 31,	2003		2002	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets</b>				
Cash and due from banks	\$ 660,022	\$ 660,022	\$ 721,972	\$ 721,972
Money market instruments	4,865,329	4,865,329	5,348,052	5,348,052
Investment securities:				
Available-for-sale	4,363,087	4,363,087	3,655,808	3,655,808
Held-to-maturity (a)	353,299	354,434	419,760	428,472
Loans held for securitization	13,084,105	13,084,105	11,029,627	11,029,627
Loan portfolio, net of reserve for possible credit losses	19,323,656	19,323,656	16,585,582	16,585,582
Accrued income receivable	443,755	443,755	371,089	371,089
Accounts receivable from securitization	7,766,477	7,766,477	6,926,876	6,926,876

(a) For purposes of comparability, certain prior period amounts have been restated.

**FINANCIAL LIABILITIES**

The fair value of the Corporation's deposits is determined by a review of each component. The fair value of money market deposit accounts, noninterest-bearing deposits, interest-bearing transaction accounts, and savings accounts is equal to the amount payable upon demand. The fair value of time deposits is estimated by discounting the future cash flows of the stated maturities using estimated rates currently offered for like deposits. The valuation does not include the benefit that results from the low-cost funding provided by the various deposit liabilities compared to the cost of borrowing funds in the market.

Short-term borrowings include federal funds purchased and securities sold under repurchase agreements, short-term deposit notes, structured financings, and other short-term borrowings. The fair value of federal funds purchased and securities sold under repurchase agreements, short-term deposit notes, and other short-term borrowings approximates the carrying value based upon their short-term nature. The fair value of the Corporation's structured financings is estimated by discounting the future cash flows of the stated maturities of the structured financings using estimated rates currently offered for similar structured financings.

The fair value of substantially all of the Corporation's long-term debt and bank notes is estimated by discounting the future cash flows of the stated maturities of the long-term debt and bank notes using estimated rates currently offered for similar debt obligations, except that the fair value of the Corporation's junior subordinated deferrable interest debentures is based upon its quoted market price.

**THE CORPORATION'S FINANCIAL LIABILITIES**

(dollars in thousands)

Accrued interest payable includes interest expensed but not yet paid for deposits, short-term borrowings, long-term debt and bank notes, interest rate swap agreements, and foreign exchange swap agreements. The carrying amount approximates the fair value of these liabilities as a result of their relatively short-term nature.

**DERIVATIVE FINANCIAL INSTRUMENTS**

By using derivative instruments, the Corporation exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Corporation's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of the derivative contract is positive, this indicates that the counterparty owes the Corporation, thus creating a repayment risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore assumes no repayment risk. In order to minimize the amount of credit risk, the Corporation only enters into derivative financial instruments with counterparties who have credit ratings of investment grade as rated by the major rating agencies. The derivative financial instruments the Corporation uses are interest rate swap agreements, foreign exchange swap agreements and forward exchange contracts.

The fair value of the Corporation's derivative financial instruments is determined using quoted market prices or dealer quotes. This value generally reflects the estimated amounts that the Corporation would receive or pay to terminate the instruments at the reporting date.

**CARRYING VALUES AND ESTIMATED FAIR VALUES OF**

December 31,

2003

2002

	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Liabilities</b>				
Deposits	\$ 31,836,081	\$ 32,549,248	\$ 30,616,216	\$ 31,715,373
Short-term borrowings	1,025,463	1,053,277	1,250,103	1,294,866
Long-term debt and bank notes	12,145,628	13,150,079	9,538,173	10,543,933
Accrued interest payable	319,227	319,227	286,158	286,158

The Corporation uses interest rate swap agreements to change fixed-rate funding sources to floating-rate funding sources to more closely match the interest rate sensitivity of the Corporation's assets.

Interest rate swap agreements are agreements between counterparties to exchange cash flows based on the difference between two interest rates, applied to a notional principal amount for a specific period. Interest rate swap agreements may subject the Corporation to market risk associated with changes in interest rates, as a result of the change to floating-rate funding sources, as well as the risk of default by a counterparty to the agreement.

### SIGNIFICANT CLASSES OF DERIVATIVE FINANCIAL INSTRUMENTS (dollars in thousands)

The Corporation's interest rate swap agreements are designated as fair value hedges under Statement No. 133. The fair value of the Corporation's interest rate swap agreements was a gross asset value of \$361.6 million and a gross liability value of \$32.7 million at December 31, 2003. At December 31, 2002, the outstanding interest rate swap agreements had a gross asset value of \$468.4 million. For the years ended December 31, 2003 and 2002, the Corporation's hedging ineffectiveness for its interest rate swap agreements was immaterial to the Corporation's audited consolidated statements of income. At December 31, 2003, the Corporation had interest rate swap agreements maturing in varying amounts from 2004 through 2033.

	Weighted Average					
	National Amount	Receive Rate (a)	Pay Rate (b)	Maturity in Years	Estimated Fair Value	
<b>December 31, 2003</b>						
Interest rate swap agreements	\$ 9,055,033	5.43 %	2.03 %	6.8		
Gross unrealized gains					\$ 361,554	
Gross unrealized losses					(32,735 )	
Total					\$ 328,819	
Forward exchange contracts—pounds sterling	1,557,372	1.68	1.79	.1		
Gross unrealized gains					\$ –	
Gross unrealized losses					(94,016 )	
Total					\$ (94,016 )	
Forward exchange contracts—euros	101,034	1.17	1.26	.1		
Gross unrealized gains					\$ –	
Gross unrealized losses					(7,661 )	
Total					\$ (7,661 )	
Forward exchange contracts—U.S. dollars	420,376	.57	.56	.1		
Gross unrealized gains					\$ –	
Gross unrealized losses					(6,353 )	
Total					\$ (6,353 )	
Foreign exchange swap agreements	4,696,241	4.03 %	5.10 %	2.2		
Gross unrealized gains					\$ 209,712	
Gross unrealized losses					(257,242 )	
Total					\$ (47,530 )	
<b>December 31, 2002</b>						
Interest rate swap agreements	\$ 6,543,943	5.71 %	2.21 %	7.6		
Gross unrealized gains					\$ 468,425	
Gross unrealized losses					–	
Total					\$ 468,425	
Forward exchange contracts—pounds sterling	1,340,576	1.57	1.61	.1		
Gross unrealized gains					\$ –	
Gross unrealized losses					(33,488 )	
Total					\$ (33,488 )	
Forward exchange contracts—euros	77,296	1.01	1.05	.1		
Gross unrealized gains					\$ –	
Gross unrealized losses					(4,726 )	
Total					\$ (4,726 )	
Forward exchange contracts—U.S. dollars	1,848,448	.66	.62	.1		

Gross unrealized gains						\$	-
Gross unrealized losses							(60,733 )
Total						\$	(60,733 )
Foreign exchange swap agreements	2,997,399	4.45 %	5.43 %	2.7			
Gross unrealized gains						\$	66,233
Gross unrealized losses							(101,157)
Total						\$	(34,924 )

(a) Weighted average receive rate represents the rate contracted at the time the derivative financial instruments were entered into.

(b) Weighted average pay rate for the forward exchange contracts represents the spot rate for the currency in which the forward exchange contract was denominated at December 31, 2003 and 2002, respectively.

**EXPECTED MATURITIES OF DERIVATIVE FINANCIAL INSTRUMENTS** (dollars in thousands)

December 31, 2003	Within 1 Year	1-5 Years	6-10 Years	Over 10 Years	Total
<b>Interest Rate Swap Agreements</b>					
Notional amount	\$ 966,494	\$ 3,922,734	\$ 3,079,502	\$ 1,086,303	\$ 9,055,033
Estimated fair value	15,481	193,633	102,370	17,335	328,819
<b>Forward Exchange Contracts</b>					
Notional amount	2,078,782	–	–	–	2,078,782
Estimated fair value	(108,030 )	–	–	–	(108,030 )
<b>Foreign Exchange Swap Agreements</b>					
Notional amount	1,754,735	2,310,004	631,502	–	4,696,241
Estimated fair value	104,477	(145,793 )	(6,214 )	–	(47,530 )

The Corporation is exposed to foreign currency exchange rate risk as a result of transactions in currencies other than the designated functional currency of its foreign bank subsidiaries. The Corporation uses foreign exchange swap agreements to reduce its exposure to foreign currency exchange rate risk. The foreign exchange swap agreements are primarily related to the issuance of long-term debt and bank notes by the Corporation's foreign bank subsidiaries. Foreign exchange swap agreements are agreements to exchange principal amounts of different currencies and interest rates, usually at a prevailing exchange rate. When the agreement matures, the underlying principal or notional amount will be re-exchanged at the agreed-upon exchange rate.

The Corporation's qualifying foreign exchange swap agreements are accounted for as fair value hedges. The fair value of the Corporation's qualifying foreign exchange swap agreements was a gross unrealized gain of \$61.7 million at December 31, 2003, and a gross unrealized gain of \$19.4 million at December 31, 2002. The Corporation also enters into foreign exchange swap agreements that are not designated as accounting hedges. The fair value of the Corporation's foreign exchange swap agreements not designated as accounting hedges was a gross unrealized gain of \$148.0 million and a gross unrealized loss of \$257.2 million at December 31, 2003. The fair value of the Corporation's foreign exchange swap agreements not designated as accounting hedges was a gross unrealized gain of \$46.8 million and a gross unrealized loss of \$101.2 million at December 31, 2002. For the year ended

counterparty credit risk. There were \$28.5 million of interest-earning time deposits pledged by MBNA Europe under the terms of the interest rate swap agreements and foreign exchange swap agreements at December 31, 2003. There were no securities pledged by the Bank under the terms of the interest rate swap agreements and foreign exchange swap agreements at December 31, 2002. The Bank held \$36.7 million in deposits received from swap counterparties, that were collateralizing interest rate swap agreements and foreign exchange swap agreements at December 31, 2003. MBNA Europe held an additional \$85.1 million in deposits received from swap counter-parties, that were collateralizing interest rate swap agreements and foreign exchange swap agreements at December 31, 2003. At December 31, 2002, the Bank held a \$44.7 million deposit received from a swap counterparty, which was collateralizing an interest rate swap agreement. MBNA Europe held an additional \$16.8 million in deposits received from swap counterparties, that were collateralizing interest swap agreements and foreign exchange swap agreements at December 31, 2002.

The Corporation enters into transactions and has related assets and liabilities in currencies other than the currency in which the Corporation or its foreign bank subsidiaries operate. As a result, the Corporation is exposed to foreign currency exchange rate risk and enters into forward exchange contracts to reduce its exposure to that risk. Those forward exchange contracts are commitments to buy or sell foreign currency at a future date for a contracted price. Those

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December 31, 2003, the Corporation recognized a net loss of \$12.6 million on its foreign exchange swap agreements. For the year ended December 31, 2002, the Corporation recognized a net gain of \$22.4 million on its foreign exchange swap agreements. The Corporation's hedging ineffectiveness for its foreign exchange swap agreements was immaterial to the Corporation's audited consolidated statements of income for 2003 and 2002. The Corporation's foreign exchange swap agreements mature in varying amounts from 2004 through 2009.

Under the terms of certain interest rate swap agreements and foreign exchange swap agreements, each party may be required to pledge certain assets if the market value of the interest rate swap agreements and foreign exchange swap agreements exceeds an amount set forth in the agreement or in the event of a change in credit rating. This pledge of collateral is intended to mitigate

forward exchange contracts may expose the Corporation to varying degrees of credit and market risk and are subject to the same credit and risk limitations as the Corporation's other financial instruments.

While the forward exchange contracts reduce the exposure to foreign currency exchange rate movements, the contracts are not accounting hedges under Statement No. 133. The recognized fair value of the open forward exchange contracts at December 31, 2003, was a gross unrealized loss, or a liability, of \$108.0 million, which was recognized in the audited consolidated statements of income as a net loss of \$108.0 million (pre-tax). The recognized fair value of the open forward exchange contracts at December 31, 2002, was a gross unrealized loss, or a liability, of \$98.9 million, which was recognized in the audited consolidated statements of income as a net loss of \$98.9 million (pre-tax).

**SUMMARY OF ACTIVITY OF DERIVATIVE FINANCIAL INSTRUMENTS (NOTIONAL AMOUNTS)** (dollars in thousands)

	Interest Rate Swap Agreements	Forward Exchange Contracts	Foreign Exchange Swap Agreements	Total
Balance, December 31, 2000	\$ 1,754,826	\$ 1,321,184	\$ 451,458	\$ 3,527,468
Additions	1,578,547	9,400,474	1,400,671	12,379,692
Maturities	(450,000 )	(9,278,535 )	—	(9,728,535 )
Balance, December 31, 2001	2,883,373	1,443,123	1,852,129	6,178,625
Additions	3,933,176	12,619,569	1,266,104	17,818,849
Maturities	(272,606 )	(10,796,372)	(120,834 )	(11,189,812)
Balance, December 31, 2002	6,543,943	3,266,320	2,997,399	12,807,662
Additions	2,674,016	16,560,962	2,106,430	21,341,408
Maturities	(162,926 )	(17,748,500)	(407,588 )	(18,319,014)
<b>Balance, December 31, 2003</b>	<b>\$ 9,055,033</b>	<b>\$ 2,078,782</b>	<b>\$ 4,696,241</b>	<b>\$ 15,830,056</b>

The net loss of \$108.0 million on the Corporation's open forward exchange contracts outstanding at December 31, 2003, along with the losses on its matured forward exchange contracts, resulted in a net loss of \$168.1 million on the Corporation's forward exchange ~~contracts in the audited consolidated statements of income for the~~ year ended December 31, 2003. The Corporation recognized an offsetting net gain of \$290.6 million on the related foreign denominated assets and liabilities in the audited consolidated statements of income for the year ended December 31, 2003. The

net loss of \$98.9 million on the Corporation's open forward exchange contracts outstanding at December 31, 2002, along with the losses on its matured forward exchange contracts, resulted in a net loss of \$185.2 million on the Corporation's forward exchange ~~contracts in the audited consolidated statements of income for the~~ year ended December 31, 2002. The Corporation recognized an offsetting net gain of \$160.0 million on the related foreign denominated assets and liabilities in the audited consolidated statements of income for the year ended December 31, 2002.

**NOTE 31: PARENT COMPANY FINANCIAL INFORMATION**

The parent company's investment in subsidiaries represents the total equity of all consolidated subsidiaries, using the equity

(dollars in thousands)

method of accounting for investments. The Corporation's principal subsidiary is the Bank, which constituted 93.1% and 93.0% of the consolidated assets of the Corporation at December 31, 2003 and 2002, respectively.

**CONDENSED STATEMENTS OF FINANCIAL CONDITION**

December 31,	2003	2002
<b>Assets</b>		
Cash and due from bank subsidiary	\$ 4,997	\$ 4,219
Interest-earning time deposits due from bank subsidiary	1,487,196	1,097,796
Notes receivable from non-bank subsidiaries	1,513,745	1,490,162
Investment in subsidiaries:		
Bank	11,250,446	9,030,463
Non-bank	267,169	268,899
Premises and equipment, net	167,530	197,736
Accrued income receivable	84,644	56,926
Investment in variable interest entities	32,902	-
Other assets	379,982	362,752
Total assets	<u>\$ 15,188,611</u>	<u>\$ 12,508,953</u>
<b>Liabilities and Stockholders' Equity</b>		
Long-term debt	\$ 2,519,055	\$ 1,961,324
Junior subordinated deferrable interest debentures due to variable interest entities	1,134,624	1,162,839
Accrued interest payable	49,083	39,539
Dividends payable	130,704	92,412
Accrued expenses and other liabilities	242,105	151,520
Total liabilities	<u>4,075,571</u>	<u>3,407,634</u>
Stockholders' equity	11,113,040	9,101,319
Total liabilities and stockholders' equity	<u>\$ 15,188,611</u>	<u>\$ 12,508,953</u>

**CONDENSED STATEMENTS OF INCOME** (dollars in thousands)

Year Ended December 31,	2003	2002	2001
<b>Operating Income</b>			
Interest income	\$ 124,117	\$ 122,165	\$ 121,264
Dividends from subsidiaries:			
Bank	450,147	352,000	308,000
Non-bank	1,633	1,410	1,181
Management fees from subsidiaries	150,087	166,160	97,867
Other	7,427	3,820	15,044
Total operating income	<u>733,411</u>	<u>645,555</u>	<u>543,356</u>
<b>Operating Expense</b>			
Interest expense	104,546	93,321	90,092
Salaries and employee benefits	115,595	99,479	41,249
Other	30,179	59,388	49,652
Total operating expense	<u>250,320</u>	<u>252,188</u>	<u>180,993</u>
Income before income taxes and equity in undistributed net income of subsidiaries	483,091	393,367	362,363
Applicable income taxes	5,175	22,284	24,694
Equity in undistributed net income of subsidiaries:			
Bank	1,846,944	1,390,837	1,354,094



Non-bank	13,244	4,034	2,528
<b>Net Income</b>	<b>\$ 2,338,104</b>	<b>\$ 1,765,954</b>	<b>\$ 1,694,291</b>

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**CONDENSED STATEMENTS OF CASH FLOWS** (dollars in thousands)

Year Ended December 31,	2003	2002	2001
<b>Operating Activities</b>			
Net income	\$ 2,338,104	\$ 1,765,954	\$ 1,694,291
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(1,860,188)	(1,394,871)	(1,356,622)
Deferred income tax benefit	(13,719 )	(8,560 )	(4,658 )
Depreciation and amortization	104,444	110,883	42,688
Decrease (increase) in other operating activities	15,894	(22,683 )	95,984
Net cash provided by operating activities	584,535	450,723	471,683
<b>Investing Activities</b>			
Net (increase) decrease in interest-earning time deposits due from bank subsidiary	(389,400 )	(618,000 )	336,500
Net issuance of notes receivable from non-bank subsidiaries	(23,583 )	(3,275 )	(176,668 )
Net sales (purchases) of premises and equipment	20,605	(60,888 )	(35,771 )
Net investment in subsidiaries	(17,925 )	(162,214 )	(47,285 )
Proceeds from sale of investment securities available-for-sale	–	13,126	–
Net cash (used in) provided by investing activities	(410,303 )	(831,251 )	76,776
<b>Financing Activities</b>			
Proceeds from issuance of long-term debt	1,039,191	1,188,959	294,562
Maturity of long-term debt	(434,000 )	(495,000 )	(241,000 )
Proceeds from issuance of junior subordinated deferrable interest debentures to variable interest entities	–	515,464	–
Proceeds from issuance of common stock	1,082,186	–	–
Proceeds from exercise of stock options and other awards	275,793	138,422	84,032
Acquisition and retirement of common stock	(1,700,824)	(615,503 )	(376,095 )
Dividends paid	(435,800 )	(350,740 )	(312,382 )
Net cash (used in) provided by financing activities	(173,454 )	381,602	(550,883 )
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>778</b>	<b>1,074</b>	<b>(2,424 )</b>
Cash and cash equivalents at beginning of year	4,219	3,145	5,569
Cash and cash equivalents at end of year	\$ 4,997	\$ 4,219	\$ 3,145
<b>Supplemental Disclosures</b>			
Interest expense paid	\$ 102,866	\$ 79,425	\$ 95,304
Income taxes paid	\$ –	\$ –	\$ –

**QUARTERLY DATA (UNAUDITED)** (dollars in thousands, except per share amounts)

Three Months Ended	March 31,	June 30,	September 30,	December 31,
<b>2003</b>				
Interest income	\$ 944,027	\$ 959,915	\$ 969,529	\$ 985,413
Interest expense	388,431	380,747	369,617	369,716
Net interest income	555,596	579,168	599,912	615,697
Provision for possible credit losses	378,877	345,603	334,064	334,157
Other operating income	1,788,009	1,851,804	2,032,469	2,153,198
Other operating expense	1,287,875	1,235,068	1,267,389	1,333,815
Income before income taxes	676,853	850,301	1,030,928	1,100,923
Net income	432,509	543,342	658,763	703,490
Net income applicable to common stock	428,993	539,826	655,247	699,974
Earnings per common share	.34	.42	.51	.55
Earnings per common share—assuming dilution	.33	.42	.51	.54
Weighted average common shares outstanding (000)	1,278,980	1,278,144	1,277,810	1,277,748
Weighted average common shares outstanding and common stock equivalents (000)	1,292,647	1,294,246	1,296,312	1,297,300
<b>2002</b>				
Interest income	\$ 915,701	\$ 895,618	\$ 887,423	\$ 979,328
Interest expense	402,425	390,801	405,152	405,117
Net interest income	513,276	504,817	482,271	574,211
Provision for possible credit losses	359,393	274,932	288,195	417,637
Other operating income	1,596,266	1,633,629	1,668,145	1,854,883
Other operating expense	1,166,695	1,141,365	1,234,395	1,159,470
Income before income taxes	583,454	722,149	627,826	851,987
Net income	369,910	457,842	398,042	540,160
Net income applicable to common stock	366,394	454,242	394,498	536,642
Earnings per common share	.29	.36	.31	.42
Earnings per common share—assuming dilution	.28	.35	.30	.41
Weighted average common shares outstanding (000)	1,277,995	1,277,703	1,277,720	1,277,734
Weighted average common shares outstanding and common stock equivalents (000)	1,311,074	1,305,288	1,297,412	1,297,285

For the three months ended December 31, 2002, the Corporation increased its provision for possible credit losses and its reserve for possible credit losses by \$109.5 million related to its other consumer loan receivables.

For the three months ended December 31, 2002, the Corporation recognized an additional \$51.3 million of deferred compensation expense associated with the immediate vesting of restricted stock awards on the death of a holder of the awards.

For the three months ended September 30, 2002, the Corporation changed its estimated value of accrued interest and fees which resulted in a decrease to income before income taxes of

On June 6, 2002, the Corporation announced a three-for-two split of the Corporation's Common Stock, effected in the form of a dividend, issued on July 15, 2002, to stockholders of record as of the close of business on July 1, 2002. Accordingly, all common share and per common share data previously reported in the Corporation's Form 10-Q filed with the Securities and Exchange Commission for March 31, 2002 have been adjusted to reflect the stock split.

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\$263.7 million through a reduction of \$66.3 million of interest income and \$197.4 million of other operating income.

## PREFERRED STOCK PRICE RANGE AND DIVIDENDS (UNAUDITED)

	High	Low	Close	Dividends Declared per Preferred Share
<b>Series A</b>				
<b>2003</b>				
Fourth quarter	\$ 26.60	\$ 25.25	\$ 25.85	\$ .46875
Third quarter	26.35	25.25	25.35	.46875
Second quarter	26.35	25.25	26.00	.46875
First quarter	25.45	24.60	25.20	.46875
<b>2002</b>				
Fourth quarter	25.10	24.40	25.00	.46875
Third quarter	25.50	24.18	24.85	.46875
Second quarter	25.55	25.00	25.48	.46875
First quarter	25.80	24.85	24.85	.46875
<b>Series B</b>				
<b>2003</b>				
Fourth quarter	26.36	25.00	25.70	.34380
Third quarter	25.75	24.55	25.10	.34380
Second quarter	25.45	23.20	24.90	.34380
First quarter	25.20	22.95	23.25	.34380
<b>2002</b>				
Fourth quarter	23.60	21.45	23.35	.34380
Third quarter	24.10	22.15	22.50	.34740
Second quarter	24.30	22.75	23.51	.36850
First quarter	24.00	22.35	22.80	.34380

The Corporation has two series of preferred stock issued and outstanding, both with a \$25 stated value per share. Each series of preferred stock is traded on the New York Stock Exchange, the Series A Preferred Stock under the symbol "KRBpfa" and the Series B Preferred Stock under the symbol "KRBpfb."

On January 22, 2004, the Corporation's Board of Directors declared a quarterly dividend of \$.46875 per share on the 7½% Cumulative Preferred Stock, Series A, and a quarterly dividend of \$.3438 per share on the Adjustable Rate Cumulative Preferred Stock, Series B. Both dividends are payable April 15, 2004 to stockholders of record as of March 31, 2004.

## COMMON STOCK PRICE RANGE AND DIVIDENDS (a) (UNAUDITED)

	High	Low	Close	Dividends Declared per Common Share
<b>2003</b>				
Fourth quarter	\$ 25.45	\$ 23.50	\$ 24.85	\$ .10
Third quarter	24.91	20.72	22.80	.10
Second quarter	22.26	15.23	20.84	.08
First quarter	20.75	12.15	15.05	.08
<b>2002</b>				
Fourth quarter	22.47	15.31	19.02	.07
Third quarter	22.40	13.80	18.38	.07
Second quarter	25.97	21.23	22.05	.07
First quarter	25.93	20.77	25.71	.07

(a) The common stock price and dividends have been adjusted to reflect the three-for-two stock split of MBNA Corporation's Common Stock effected in the form of a dividend, issued on July 15, 2002, to stockholders of record as of the close of business on July 1, 2002.

The Corporation's Common Stock is traded on the New York Stock Exchange under the symbol "KRB" and is listed as "MBNA" in newspapers. ~~At January 31, 2004, the Corporation had 2,789~~ common stockholders of record. This figure does not include beneficial owners for whom Cede & Co. or others act as nominees.

On January 22, 2004, the Corporation's Board of Directors declared a quarterly dividend of \$.12 per common share, payable April 1, 2004 to stockholders of record as of March 15, 2004.

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# Experience

## MBNA CORPORATION BOARD OF DIRECTORS

**James H. Berick, Esq.**  
*Retired Partner*  
Squire, Sanders & Dempsey L.L.P.

**Benjamin R. Civiletti, Esq.**  
*Chairman*  
Venable LLP  
Former Attorney General  
of the United States

**Bruce L. Hammonds**  
*President and Chief Executive Officer*

**William L. Jews**  
*President and Chief Executive Officer*  
CareFirst BlueCross BlueShield

**Norma Lerner**  
*Investor*

**Randolph D. Lerner, Esq.**  
*Chairman*  
Owner, Cleveland Browns

**Stuart L. Markowitz, M.D.**  
*Internist and Managing Partner*  
Drs. Markowitz, Rosenberg,  
Stein & Associates

Clinical Professor  
Case Western Reserve University,  
College of Medicine

**William B. Milstead**  
*Retired Partner*  
Ernst & Young, LLP

**Michael Rosenthal, Ph.D.**  
*Professor*  
Columbia University

Former Associate Dean for  
Academic Administration at  
Columbia College

## MBNA PRINCIPAL OFFICERS

**Bruce L. Hammonds**  
*President and Chief Executive Officer*  
MBNA Corporation

**John R. Cochran III**  
*Chairman and Chief Executive Officer*  
MBNA America Bank, N.A.

**Richard K. Struthers**  
*Chairman, MBNA Europe  
and MBNA Canada*

**Lance L. Weaver**  
*U.S. Credit Card*

**Douglas R. Denton**  
*Chief Technology Officer*

**General Charles C. Krulak**  
*Chief Administrative Officer*

**Frank P. Bramble, Sr.**  
*Planning*

**Vernon H.C. Wright**  
*Chief Financial Officer*  
MBNA Corporation

**Kenneth A. Vecchione**  
*Chief Financial Officer*  
MBNA America Bank, N.A.

## MBNA OFFICE LOCATIONS



### INTERNATIONAL HEADQUARTERS

MBNA Corporation  
Wilmington, DE 19884  
(800) 441-7048

### MBNA OFFICES

#### UNITED STATES

75 Enterprise, Suite 200  
Aliso Viejo, CA 92656

1075 Silver Lake Blvd.  
Dover, DE 19904

210 Town Park Drive  
Kennesaw, GA 30144

11333 McCormick Rd.

32 Washington St.  
Camden, ME 04843

274 Front St.  
Farmington, ME 04938

50 Pleasant St.  
Fort Kent, ME 04743

16 Godfrey Dr.  
Orono, ME 04473

901 Washington Ave.  
Portland, ME 04103

18 Green Hill Dr.  
Presque Isle, ME 04769

12 Water St.  
Rockland, ME 04841

388 S. Main St.  
Akron, OH 44311

25875 Science Park Dr.  
Beachwood, OH 44122

2568 Park Centre Blvd.  
State College, PA 16801

16001 N. Dallas Pkwy.  
Dallas, TX 75248

#### CANADA

1600 James Naismith Dr.  
Gloucester, Ontario  
K1B 5N8

1000 de la Gauchetière Suite 4300  
Montréal, Québec

#### UNITED KINGDOM

Stansfield House  
Chester Business Park  
Wrexham Rd.  
Chester, Cheshire  
CH4 9QQ  
United Kingdom

86 Jermyn St.  
London SW1Y 6JD  
United Kingdom

#### SPAIN

C/José Echegaray, 6.  
28230 Las Rozas  
Madrid, Spain

Hunt Valley, MD 21031

1 Hatley Rd.  
Belfast, ME 04915

5 Industrial Pkwy.  
Brunswick, ME 04011

100 Main St., Suite 303

Dover, NH 03820  
320 University Ave.  
Newark, NJ 07102

9 W. 57th St.  
New York, NY 10019

H3B 4W5

IRELAND

46 St. Stephen' s Green  
Dublin 2, Ireland

Dublin Road  
Carrick-on-Shannon  
Co Leitrim, Ireland

CHINA

(Representative Office)

Suite 2006, 20th Floor,  
Jin Mao Tower  
88 Century Blvd.  
Pudong, Shanghai 200121  
People' s Republic of China

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## SUBSIDIARIES OF MBNA CORPORATION

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### **MBNA AMERICA BANK, N.A.**

The principal subsidiary of MBNA Corporation, MBNA America is the largest independent credit card lender in the world. It also provides retail deposit, consumer loan, and insurance products. MBNA America markets its products through thousands of membership organizations and financial institutions and is the recognized industry leader in endorsed marketing.

### **MBNA DELAWARE**

The Corporation is also the parent of MBNA Delaware, a national bank that offers mortgage loans, aircraft loans, and business card products.

## SUBSIDIARIES OF MBNA AMERICA BANK, N.A.

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### **MBNA EUROPE BANK LIMITED**

MBNA issues credit cards in the United Kingdom, the Republic of Ireland, and Spain. MBNA Europe is headquartered in Chester, England, with business development offices in London, England; Dublin and Carrick-on-Shannon, Ireland; and Las Rozas, Spain.

### **MBNA CANADA BANK**

MBNA issues credit cards in Canada. MBNA Canada is headquartered in Ottawa, Ontario, with a business development office in Montréal, Québec.

### **MBNA MARKETING SYSTEMS, INC.**

MBNA has state-of-the-art telephone sales facilities to support account acquisition and maintains offices in Delaware, Georgia, Maine, Maryland, New Hampshire, New Jersey, Ohio, Pennsylvania, and Texas. In addition to credit cards, MBNA Marketing Systems cross-sells consumer loan, deposit, and insurance products.

### **MBNA TECHNOLOGY, INC.**

MBNA Technology, Inc., headquartered in Dallas, Texas, provides information technology support and services to MBNA America Bank, N.A., and its affiliates.

### **MBNA.COM**

Through a single Web address—[www.MBNA.com](http://www.MBNA.com)—Customers can access their existing account information, apply for new credit card or consumer loan accounts, shop for products and services, plan and finance travel, and open certificates of deposit or money market accounts.

## INDEPENDENT AUDITORS

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Ernst & Young LLP

## CORPORATE REGISTRARS AND TRANSFER AGENTS

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National City Bank (common stock) (800) 622-6757  
The Bank of New York (preferred stock) (212) 815-4302

## PRINCIPAL FINANCIAL CONTACTS

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For further information about MBNA Corporation or its subsidiaries, please contact:

David W. Spartin, *Senior Vice Chairman*

Edward H. Murphy, *Director, Investor Relations*

MBNA Corporation  
Wilmington, DE 19884-0141  
(800) 362-6255 or (302) 456-8588

MBNA Corporation  
Wilmington, DE 19884-0131  
(800) 362-6255 or (302) 432-0202

Internet address: [www.MBNA.com](http://www.MBNA.com)

## COMMON STOCK

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Listed on New York Stock Exchange  
Stock Symbol KRB

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SUCCESS IS NEVER FINAL.





**Subsidiaries of MBNA Corporation**

Name	Incorporated
MBNA America Bank, N.A	United States
MBNA America (Delaware), N.A	United States
MBNA Europe Bank Limited*	United Kingdom
MBNA Canada Bank*	Canada

\*A subsidiary of MBNA America Bank, N.A.





## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of MBNA Corporation of our report dated January 22, 2004, with respect to the consolidated financial statements of MBNA Corporation incorporated by reference in this 2003 Annual Report on Form 10-K of MBNA Corporation for the year ended December 31, 2003:

<b>Registration Statement Number</b>	<b>Form</b>
33-41936	S-8
33-41895	S-8
33-71640	S-8
33-95438	S-8
333-15721	S-3
333-21181	S-4
333-06824	S-8
333-51477	S-8
333-74919	S-3
333-79987	S-8
333-44422	S-8
333-45814	S-3
333-109035	S-8

Baltimore, Maryland

March 9, 2004

/s/ Ernst & Young LLP



CERTIFICATIONS

I, Bruce L. Hammonds, certify that:

1. I have reviewed this annual report on Form 10-K of MBNA Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: March 15, 2004

/s/ Bruce L. Hammonds

Bruce L. Hammonds  
Chief Executive Officer



CERTIFICATIONS

I, Vernon H.C. Wright, certify that:

1. I have reviewed this annual report on Form 10-K of MBNA Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: March 15, 2004

/s/ Vernon H.C. Wright

Vernon H.C. Wright  
Chief Financial Officer



This certification is being furnished to the Securities and Exchange Commission solely in connection with Section 1350 of Chapter 63 of title 18, United States Code, "Failure of corporate officers to certify financial reports", and is not being filed as part of MBNA Corporation's Form 10-K for the period ended December 31, 2003 accompanying this certification.

I, Bruce L. Hammonds, Chief Executive Officer of MBNA Corporation, certify that MBNA Corporation's Form 10-K for the period ended December 31, 2003, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of MBNA Corporation.

Date: March 15, 2004

/s/ Bruce L. Hammonds \_\_\_\_\_

Bruce L. Hammonds  
Chief Executive Officer





This certification is being furnished to the Securities and Exchange Commission solely in connection with Section 1350 of Chapter 63 of title 18, United States Code, "Failure of corporate officers to certify financial reports", and is not being filed as part of MBNA Corporation's Form 10-K for the period ended December 31, 2003 accompanying this certification.

I, Vernon H.C. Wright, Chief Financial Officer of MBNA Corporation, certify that MBNA Corporation's Form 10-K for the period ended December 31, 2003, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of MBNA Corporation.

Date: March 15, 2004

/s/ Vernon H.C. Wright \_\_\_\_\_

Vernon H.C. Wright  
Chief Financial Officer