Annual Report and Financial Statements

Clydesdale Bank Asset Finance Limited

For the year ended 30 September 2020

Company number: SC113775

Clydesdale Bank Asset Finance Limited

Annual Report and Financial Statements
For the year ended 30 September 2020

Contents

Clydesdale Bank Asset Finance Limited

Directors and Professional Advisers

Directors	Gavin Opperman Mark Thundercliffe
Secretary	Graeme Duncan
Registered office	30 St Vincent Place Glasgow G1 2HL
Independent auditors	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX

Clydesdale Bank Asset Finance Limited

Strategic Report

The Directors of Clydesdale Bank Asset Finance Limited ("the Company") present their Strategic Report for the year ended 30 September 2020.

The Strategic Report is a statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and is intended to be fair and balanced, and to provide information that enables the Directors to be satisfied that they have complied with s172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the Company).

Business structure

The Company is incorporated in the United Kingdom ("UK") under the Companies Act 2006 and registered in Scotland. The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

The Company is a wholly owned subsidiary of Clydesdale Bank PLC ("CB PLC"), and the ultimate parent and controlling entity is Virgin Money UK PLC ("VMUK"). VMUK and its subsidiary undertakings comprise the Virgin Money UK PLC Group ("Group").

Further detail of the Group structure is disclosed in note 1 to the financial statements.

Principal activities

The Company provides instalment credit asset finance facilities to industry, commerce and private individuals, offering customers a moveable asset. There has been no significant change to business operations during the year and no significant change in business operations is expected. The Company is regulated by the FCA due to the FCA's regulation of consumer credit act permissions.

The Company's overall strategic objective is aligned to the Group, who aims to be a strong, customer-centric bank that proactively responds to changes in its customers' needs and builds long-standing customer relationships. The Group is committed to delivering a strong banking proposition in the UK, ensuring customers are placed at the centre of how this is achieved.

The Group strategy continues to ensure that the Company's lease receivables are appropriately managed. Consequently, the level of risk inherent within the Company with regard to leasing activity is kept to a minimum and managed through the Group.

Financial analysis

The Statement of Comprehensive Income for the year is set out on page 16. The Company made a loss after tax of £148,000 in the current year, compared to a loss after tax of £64,000 in the year ended 30 September 2019.

Lease income has decreased by £6,000 (40%) in the year to £9,000, reflecting the continued reduction in the Company's leasing book. Finance income has decreased by £40,000 (46%) in the year to £47,000 due to a decrease in interest received on cash balances during the year.

The Company's Balance Sheet for the year is set out on page 17. The Company's total assets have decreased by £1,000 (0.0%) and total liabilities have increased by £147,000 (22%) respectively as at 30 September 2020 when compared to total assets and liabilities at 30 September 2019. The decrease in total assets was mainly due to reduction of £167,000 in finance lease receivables offset by an increase in amounts due from related entities of £146,000 in respect of bank accounts held with CB PLC. The increase in total liabilities was driven primarily by an increase of £147,000 in amounts due to related entities; attributable mainly to the current year's management recharge.

Key performance indicators

The Directors do not rely on key performance indicators at the individual subsidiary level. The performance of the Company is included in the Annual Report and Accounts of Virgin Money UK PLC. The business is managed within the Group and the results are consistent with the Company's status as a fully integrated and wholly owned subsidiary of the Virgin Money UK PLC Group. For this reason, the Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the Company.

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Principal risks and mitigating actions

The Company's operations form part of the Group's operations and the principal risks of the Company are managed by the VM UK Group. The Group's principal risks could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity and reputation. The principal risk categories remain similar to those outlined in the Annual Report and Accounts 2019, with changes relating to: the identification of model risk as a principal risk and; the recognition of climate risk as a cross-cutting risk which manifests through the existing principal risk framework.

An overview of the Group's principal risks and mitigating actions is set out below:

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.	• The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. • Credit risk is managed through risk appetite and risk limits reflected in approved credit policy. • Ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. • Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. • Stress test scenarios are regularly prepared to assess the adequacy of the Group's impairment provision and the impact on risk-weighted assets (RWAs) and capital.	Impacts: • Although the impacts on the Group's retail and business credit portfolios are yet to fully manifest, it is clear that credit risk remains heightened, with levels of defaults expected to increase over time, particularly once government support schemes come to an end. Actions: • The Group has participated in all regulatory and government support schemes with a priority focus on supporting its existing customers through COVID-19. Capital repayment holidays, interest free overdrafts (for retail customers) and extensions of credit, as well as other flexible supporting measures, continue to be provided and monitored. • Policies, risk appetite, credit decisioning and supporting frameworks have been rebased, reviewed and updated to reflect the changing environment and risk profiles.

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.	• Funding and liquidity risk is managed in accordance with Board-approved standards, including the annual internal liquidity adequacy assessment process (ILAAP) and strategic and contingency funding plans. • The Group completes an annual internal capital adequacy assessment process (ICAAP), formally assessing the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. • Board-approved risk appetite measures ensure funding and liquidity levels are monitored and managed in accordance with regulatory requirements and in support of the Group's strategy. • Market risks (interest rate and foreign exchange risks) are monitored and managed in line with established policies and allocation of capital.	Impacts: • Changing trends in customers' use of deposits, particularly amongst businesses, and the impacts of loan payment holidays across mortgage, credit cards and unsecured loan portfolios, have affected capital, liquidity and funding forecasting. • The possibility of low or even negative interest rates. Actions: • Additional monitoring and controls over capital, funding and liquidity risks resulting from COVID-19 have been put in place. The Group has early visibility of movements in RWA or potential impacts to capital from higher credit losses and stands ready to take a range of management actions. • The introduction of the Bank of England's (BoE) Term Funding Scheme with additional incentives for SMEs (TFSME) provides an alternative source of funding to wholesale markets and is included in the Group's funding plans.
Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	• The Group has a Model Risk Policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. • The Model Risk Policy standard defines roles and responsibilities in terms of model risk management. • A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.	Impacts: • The uncertain economic environment has affected all model components including input data, default markers, outputs, model accuracy and performance. • The rapid application of COVID-19 model adjustments has increased the risk that particular implementations contain errors or unexpected outcomes. Actions: • Model Risk Oversight remain actively engaged with model owners, carrying out pre-emptive model assessments to recognise and address key model risks and help validate COVID-19 driven adjustments or recalibrations. Further oversight is provided by the Model Governance Committee.

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Regulatory and compliance risk is the risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests (IRs), not meeting regulatory deadlines or obstructing the regulator.	• Clearly defined regulatory and compliance policy statements and standards are in place, supporting both regulatory and customer expectations. • There is ongoing proactive and coordinated engagement with key regulators. • Formal monitoring of compliance is managed through focused oversight, regular reporting to the Board Risk Committee and ongoing dialogue with regulators.	**Impacts** • The Group has deployed multiple new policies and processes to implement government, regulatory and central bank COVID-19 support measures. • Additional regulatory and compliance risks are associated with adherence to both COVID-19 specific regulatory guidance and with existing regulation. **Actions:** • Additional risk assessments, governance processes and assurance activities have been deployed across the Group to ensure compliance with existing regulation and COVID-19 specific regulatory guidance.
Conduct risk is the risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.	• The Group has an overarching conduct risk framework, with clearly defined policy statements and standards. • Ongoing reporting and development of conduct risk appetite measures to the Executive Risk Committee and the Board. • The Group continually assess evolving conduct regulations, customer expectations, and product and proposition development. • A risk-based assurance framework is in place which monitors compliance with regulation and assesses customer outcomes.	**Impacts:** • Decisions are being made at pace, in order to protect and support customers and there is the potential of failing to achieve good customer outcomes in this environment and in the future as relief schemes come to an end. Furthermore, there is an increased risk of failure to recognise and appropriately manage financial difficulties or vulnerabilities. **Actions:** • Additional monitoring and controls are in place to mitigate conduct risks arising from the execution of new policies and processes deployed in response to COVID-19.

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	• The Group has an established operational risk framework to identify, manage and mitigate operational risks. • Internal and external loss events are categorised using Basel II risk categories to ensure consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required to prevent reoccurrence. • The Group undertakes regular, forward-looking scenario analysis to gain insight into the stresses the business could be subject to in the event of operational risk events materialising. • A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.	Impacts: • Increased remote working, the implementation of new processes and pressure on customer support areas arising from changing customer needs all have the potential to increase the Group's operational risk profile, which could lead to increased errors or delays and subsequent loss. Actions: • The Group has undertaken ongoing risk assessments for changes to processes and controls made in response to COVID-19, including remote working. Policy exceptions are tracked and additional controls implemented.
Technology risk is the risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cyber security, IT resilience, information security, data privacy and payment risk.	• The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. • The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite. • The Board-approved security strategy focuses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management. • These risks are managed by a number of controls that align to the industry recognised National Institute of Standards and Technology Framework. • IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end-to-end business recovery and contingency plans are maintained and tested.	Impacts: • There is an increased risk of cyber attacks, due to phishing emails which use a COVID-19 theme and breaches could have legal, regulatory or privacy implications. • Reliance on the availability of digital banking and remote network access has increased, with solutions implemented to address system constraints and safeguard our connections. Actions: • Additional fraud monitoring is in place and temporary process changes are being continually risk assessed. There continues to be enhanced focus on supplier service level agreements and contingency plans. • A significant amount of work has been undertaken to enable and improve home working conditions. System monitoring, incident management and escalation processes are in place with regular oversight performed.

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Financial crime risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.	• The Group has an established and evolving framework providing transparency and structure against which to develop and maintain consistency of approach to identify, manage and mitigate financial crime risk. • The Group continues to monitor existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environment factors. • The Group operates a framework of risk-based systems and controls to minimise the extent to which its products and services can be used to commit or be subject to financial crime. Regular investments are made into the maintenance of these systems and ensure compliance. • Regular oversight of financial crime controls is undertaken to ensure they remain effective and in line with Board-approved risk appetite.	Impacts: • New policies and processes implemented in response to government, regulatory and central bank relief measures introduce additional fraud and financial crime risks. Support measures have been deployed at speed and there has been an enforced relaxation of certain controls. There is a risk that criminals may take advantage of customer and organisational vulnerabilities created by COVID-19. Actions: • Additional risk assessment, governance processes and assurance activity has been deployed across the Group to ensure the ongoing balance between customer impacts and support and maintaining fraud loss within risk appetite.
Strategic and enterprise risk is the risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of transformation activity.	• Strategic and enterprise risk is addressed through the Board-approved five year Strategic and Financial Plan, refreshed during the year to incorporate and address the impacts of COVID-19. • The Group considers strategic and enterprise risk as part of ongoing risk reporting and the management of identified strategic risks is allocated to members of the Group's Leadership Team by the CEO. • The Group continues to develop and embed its sustainability agenda in managing environmental, climate, social and governance related risks. • Regular oversight activity with workstreams focused solely on the execution risk of delivering transformation, placing customers' interest at the centre of all aspects of change.	Impacts: • COVID-19 has increased the pace of change and unpredictability within the external environment, including in relation to economic conditions, regulation, and culture. There is a risk that the Strategic and Financial Plan does not adequately reflect these changes, or that the Group responds ineffectively to the cultural and societal changes it has brought about. Actions: • The Strategic and Financial Plan has been refreshed to respond to the COVID-19 impacts experienced as well as those predicted. • The Risk Management Framework (RMF) has been refreshed in line with the new strategy and current risk environment, to ensure it remains fit for purpose and the Group's Risk Appetite Statement (RAS) takes into account the risk profile impacts of the initiatives being proposed.

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
People risk is the risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.	• Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. The Group's cultural framework has a clearly defined Purpose, with Values and Behaviours that form the foundation of the performance management framework. • The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.	Impacts: • There is an increased risk of colleague illness and absence, in addition to longer-term well-being risks, such as mental health impacts, which may arise from the tighter restrictions introduced to curb the spread of COVID-19. These factors could also increase pressure and reduce skills availability in key areas. Actions: • The Group follows government advice with colleagues working from home where possible, and social distancing and additional cleaning measures in place to support key workers based in offices and branches. Vulnerable colleagues are being given additional support from our healthcare provider.

Operational resilience

Operational resilience underpins the Group's ten principal risks. It is defined as the ability of the Group to protect and sustain its most critical functions and underlying assets, while adapting to expected or unexpected operational stress or disruption, and having the capacity to recover from issues as and when they arise.

Climate risk

Climate risk is not a standalone principal risk but manifests through existing principal risk types. The Group is exposed to physical, transition and reputation risks arising from climate change.

Emerging risks

The Group considers an emerging risk to be any risk which has a material unknown and unpredictable component, with the potential to significantly impact the future performance of the Group. The Group's emerging risks are continually reassessed and reviewed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process fully considers all relevant internal and external factors, and is designed to capture those risks which are current but have not yet fully crystallised, as well as those which are expected to crystallise in future periods.

Emerging risks are allocated a status based on their expected impact (from low to very high) and time to fully crystallise (from >12 months to 3+ years), in line with the definitions outlined in the RMF and are subject to regular review across senior governance forums.

Technology and cyber risk has been added as an emerging risk reflecting the increasing reliance on digital solutions across the Group. Technology risks which are known and already crystallising are addressed separately, within the existing technology risk framework. Competition is no longer an emerging risk. The assessment of competition risks arising in the normal course of business is incorporated within the strategic and enterprise principal risk framework. Climate risk has been retained as an emerging risk to capture the inherently unknown and unpredictable elements.

Emerging risks (continued)

Emerging risks	Description	Mitigating actions
Geopolitical and macroeconomic environment	The economic impacts of COVID-19 have yet to fully crystallise. Although the duration and depth of the downturn is uncertain, risks to credit and margin performance are expected, with significant disruption to both supply and demand already occurring. Increasing unemployment could impact customers' ability to repay their lending. The efficacy of monetary and fiscal policy, and the speed and ability with which the UK can return to normal operating conditions, will determine the overall economic impact for the UK and the Group. Uncertainty remains over the future relationship between the UK and the EU and whether trade deal negotiations can be completed ahead of the transition year end date of 31 December 2020. There is an increased possibility of a second Scottish independence referendum, driven by a greater visibility of policy differences through the COVID-19 response and ongoing Brexit negotiations.	• The Group continues to monitor economic and political developments, in light of the ongoing uncertainty, considering potential consequences for its customers, products and operating model, including its sources of funding. • The Group actively monitors its credit portfolios and undertakes robust internal stress testing to identify sectors that may come under stress as a result of an economic slowdown in the UK.
Climate risk	There is significant uncertainty around the time horizon over which climate risks will materialise as well as the exact way in which they will occur. Stakeholder expectations and regulatory attention could develop at pace, impacting the lending activities of the Group. Sudden shifts in sentiment, if not in line with the lending practices of the Group at that time, could lead to increased scrutiny and reputational damage.	• The Group continues to consider climate change in its RMF, in line with its plan to align to regulatory expectations. Climate risks are also considered by the Board in its review and challenge of the Strategic and Financial Plan and the Group's Sustainability Strategy.
Regulatory and governmental change	The suite of government support measures, introduced in reaction to the economic pressures created by COVID-19, are complex and nuanced. Any sudden or unexpected change to the rules and regulations governing the measures could create material disruption, requiring large-scale prioritisation decisions in a fast-paced environment. The longevity of temporary changes (e.g. cancellatic the 2020 Annual Cyclical Scenario (ACS), or the pos requirement for lasting changes, is unknown and mε impact firms in the medium term. Beyond COVID-19, there is continued evolution of the regulatory landscape, and the requirement to respond to on-going prudential and conduct driven initiatives.	• The Group continues to monitor emerging regulatory initiatives to identify potential impacts on its business model and ensure it is well placed to respond with effective regulatory change management. • The Group continues to work with regulators to ensure it meets all regulatory obligations, with identified implications of upcoming regulatory activity incorporated into the strategic planning cycle. • The Group has put multiple new policies in place to help ensure COVID-19 related government, regulatory and Group customer support arrangements are deployed correctly.

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Strategic Report (continued)

Principal risks and mitigating actions (continued)

Emerging risks	Description	Mitigating actions
Technology and cyber risk	The Group continues to operate in a highly competitive environment, with growth across a number of digital-only providers, and emerging signs of participation from large technology companies. These longer-term technological changes, coupled with the short-term operational challenges caused by COVID-19, are impacting the way in which customers access and use our products and services. This increases demand on systems and people, and our requirement to be flexible and responsive in a fast-paced, ever-changing environment. Emerging risks around Cloud technology and Big Data are increasing, and the fast-moving global cyber risk challenges, for example those driven by large nation states, continue to impact the security and protection of our customer data. The resilience of systems security, payment and overall technology solutions is a heightened focus of the regulator.	• The potential impacts from new technologies, and from the changing ways in which customers use the Group's services, are continuously risk assessed, with action pre-emptively taken to safeguard the end-to-end resilience of critical processes. • The Group continues to invest in the security and resilience of its infrastructure, in order to improve services and minimise the risk of disruption to customers. • The Group has resilient continuity frameworks in place to support activities in an open banking, digitally reliant market.

Outlook

Over the next twelve months the Group will continue to support Virgin Money UK PLC, the Group's ultimate parent, in delivering against its targets and executing its strategy.

The Strategic report was approved by the Board of Directors on 3 December 2020 and was signed on its behalf by:

Gavin Opperman

Director

3 December 2020

Clydesdale Bank Asset Finance Limited

Directors' Report

The Directors present their Annual Report and audited Financial Statements for Clydesdale Bank Asset Finance Limited ("the Company") for the year ended 30 September 2020.

Corporate governance

Details of the corporate governance framework applying to the Company are set out in the Corporate Governance Report within the Virgin Money UK PLC Annual Report and Accounts.

Profits and appropriations

The loss attributable to the shareholders for the year ended 30 September 2020 amounted to £148,000 (2019: £64,000). No dividend was paid during the year (2019: £Nil). The Directors do not propose a final dividend in respect of this financial year (2019: £Nil).

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management policies of the Company, in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' Report, has been included in the Strategic Report and is discussed in further detail in note 12 to the financial statements.

Directors and Directors' interests

The current Directors are shown on page 1. Under the terms of the Articles of Association of the Company, no Directors are required to retire by rotation.

Appointments and resignations

Appointments

Ian Smith and Gavin Opperman were appointed as a Directors on 23 April 2020. Mark Thundercliffe was appointed as a Director on 14 October 2020.

Resignations

Gavin Halliday resigned as a Director on 23 April 2020 and Anthony Thompson resigned as a Director 24 January 2020. Ian Smith resigned as a Director on 15 October 2020.

Directors' interests

No Director had any interest in the shares of the Company at any time during the year.

Directors' liabilities

During the year, VMUK PLC paid a premium for a contract insuring the Directors and Officers of Virgin Money UK PLC, its subsidiaries and controlled entities against personal liabilities which may arise in the course of the performance of their duties, as well as protecting the Group itself to the extent that it is obligated to indemnify Directors and Officers for such liability.

Directors' remuneration

The Directors of the Company are remunerated as employees of CB PLC, and do not receive incremental remuneration in respect of their duties as Directors of the Company. Due to the activity of the Company, the Directors believe it would be appropriate to reasonably apportion part of their remuneration as being in respect of their duties to the Company. The aggregate emoluments of the Directors of the Company were £7,000 (2019: £7,000); this is recharged to the Company by CB PLC.

Employees

The Company does not have any employees. All staff are provided by the Group and its subsidiary undertakings.

Political donations

No political donations were made throughout the year (2019: £Nil).

Significant contracts

Details of related party transactions, being the only significant contracts, are set out in note 11 of the financial statements.

Clydesdale Bank Asset Finance Limited

Directors' Report (continued)

Share capital

Information about share capital is shown in note 9 to the financial statements.

Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for at least 12 months from the approval of the financial statements. This assessment has taken into account the impact of COVID-19 on the Company's current financial position and results and the potential impact in future financial periods.

The Company's use of the going concern basis for the preparation of the accounts is discussed in note 1 to the financial statements.

Events after the balance sheet date

There were no events after the balance sheet date that require disclosure.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- make an assessment of the Company's ability to continue as a going concern.

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

Clydesdale Bank Asset Finance Limited

Directors' Report (continued)

Auditors

In accordance with the provisions of the Companies Act 2006, as amended, the Company has dispensed with the laying of financial statements before a general meeting, the holding of annual general meetings and the obligation to appoint auditors annually.

The Directors who were members of the Board at the time of signing the report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

(i) to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

(ii) each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' Report was approved by the Board of Directors on 3 December 2020 and was signed on its behalf by

Gavin Opperman
Director

3 December 2020

Independent Auditor's Report to the Members of Clydesdale Bank Asset Finance Limited

Opinion

We have audited the financial statements of Clydesdale Bank Asset Finance Limited for the year ended 30 September 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows, and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Clydesdale Bank Asset Finance Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Nathan Pietsch (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
10 December 2020

Clydesdale Bank Asset Finance Limited

Statement of Comprehensive Income
For the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Finance lease income		**9**	15
Finance Income		**47**	87
Total income		**56**	102
Other operating expenses	3	**(239)**	(181)
Total expenses		**(239)**	(181)
Loss on ordinary activities before tax		**(183)**	(79)
Tax credit	4	**35**	15
Loss for the financial year		**(148)**	(64)

The company has no recognised gains or losses other than those disclosed above.

All material items dealt with at arriving at the loss before tax for the above years relate to continuing activities.

The notes on pages 20 to 31 form an integral part of these financial statements.

Clydesdale Bank Asset Finance Limited

Balance Sheet
As at 30 September 2020

	Note	2020 £'000	2019 £'000
Assets			
Finance lease receivables	7	316	483
Due from related entities	11	12,122	11,976
Group relief receivable		35	15
Total assets		**12,473**	**12,474**
Liabilities			
Due to related entities	11	830	683
Total liabilities		**830**	**683**
Shareholders' equity			
Share capital	9	6,000	6,000
Retained earnings		5,643	5,791
Total shareholders' equity		**11,643**	**11,791**
Total liabilities and equity		**12,473**	**12,474**

The notes on pages 20 to 31 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 3 December 2020 and were signed on its behalf by:

Gavin Opperman
Director

3 December 2020

Company number: SC113775

Clydesdale Bank Asset Finance Limited

Statement of Changes in Equity
For the year ended 30 September 2020

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 October 2018	6,000	5,855	11,855
Total comprehensive loss for the year	-	(64)	(64)
Balance as at 30 September 2019	**6,000**	**5,791**	**11,791**
Total comprehensive loss for the year	-	**(148)**	**(148)**
Balance as at 30 September 2020 attributable to parent	**6,000**	**5,643**	**11,643**

The notes on pages 20 to 31 form an integral part of these financial statements.

Clydesdale Bank Asset Finance Limited

Statement of Cash Flows
For the year ended 30 September 2020

	Note	2020	2019
		£'000	£'000
Operating activities			
Loss before tax		**(183)**	(79)
Adjustments for:			
Non-cash or non-operating items included in profit before tax			
Finance Income		**(47)**	(87)
Other expenses		**205**	181
Changes in operating assets	5	**167**	234
Group relief received		**15**	17
Net cash provided by operating activities		**157**	266
Cash flows from investing activities		**-**	-
Cash flows from financing activites			
Interest paid		**(2)**	(4)
Net cash used in financing activities		**(2)**	(4)
Net increase in cash and cash equivalents		155	262
Cash and cash equivalents at beginning of the year		**11,956**	11,694
Cash and cash equivalents at end of the year	10	**12,111**	11,956

The notes on pages 20 to 31 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 30 September 2020

1. Basis of preparation

Reporting entity

The Company is incorporated in the UK and registered in Scotland.

The Company is a wholly owned subsidiary of Clydesdale Bank PLC ("CB PLC"), a company incorporated in the UK and registered in Scotland. The ultimate parent undertaking and ultimate controlling party is Virgin Money UK PLC ("VMUK"), a company incorporated in the UK and registered in England and Wales.

The smallest group in which the results if the Company are consolidated is that headed by CB PLC. VMUK and its subsidiary undertakings comprise the largest group in which the results if the Company are consolidated.

The company has not presented consolidated financial statements; relying on the exemption under s400 of the Companies Act 2006.

The consolidated financial statements of Virgin Money UK PLC may be obtained from the registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Statement of compliance

The financial statements have been prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006.

The financial statements for the year ended 30 September 2020 were authorised for issue by the Board of Directors on 3 December 2020.

Basis of measurement

The financial information has been prepared under the historical cost convention, as modified by the application of fair value measurements. A summary of the key accounting policies are set out in note 2.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 2. In addition, note 12 to the financial statements includes the Company's financial risk management objectives and note 13 to the financial statements includes the Company's objectives, policies and processes for managing its capital.

The Company has access to financial resources through the support of CB PLC who will continue to fund the Company going forward. As a consequence, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and at least 12 months from the approval of the financial statements, and therefore believe that the Company is well placed to manage its business risks successfully in line with its business model and strategic aims. This includes the impact of COVID-19 on the Company's current financial position and results and the potential impact in future financial periods. Accordingly, the Directors adopt the going concern basis in preparing the Annual Report and Financial Statements.

2. Accounting policies

New accounting standards and interpretations

The Company has adopted a number of International Accounting Standards Board (IASB) pronouncements in the current financial year, none of which have had a material impact on the financial statements:

- IFRS 16 'Leases' is effective for financial periods beginning on or after 1 January 2019 and replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease,' SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease.' IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will result in most leases for lessees being brought on to the balance sheet under a single lease model, removing the distinction between finance and operating leases. It requires a lessee to recognise a 'right-of-use' asset and a lease liability. Lessor accounting remains largely unchanged, and therefore as a lessor, the Standard has no significant impact;
- IFRIC interpretation 23: 'Uncertainty over Income Tax Treatments', issued June 2017 and effective for financial years beginning on or after 1 January 2019. The new interpretation applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law and is not limited to actual ongoing disputes; and
- 'Annual Improvements to IFRS Standards 2015-2017 Cycle', issued December 2017 and effective for financial years beginning on or after 1 January 2019. The IASB has made amendments to the following standards: IFRS 3 'Business Combinations'; IFRS 11 'Joint arrangements'; IAS 12 'Income Taxes'; and IAS 32 'Borrowing Costs'.

New accounting standards and interpretations not yet adopted

The IASB has issued a number of minor amendments to IFRSs that are not mandatory for 30 September 2020 reporting periods and have not been early adopted by the Company. These amendments are not expected to have a material impact for the Company and have therefore not been listed.

Currency of presentation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in pounds sterling (GBP), which is also the Company's presentation currency, rounded to the nearest thousand pounds (£'000) unless otherwise stated.

Transactions and balances

Initially, at the date of a foreign currency transaction, the Company records an asset, liability, expense or revenue arising from a transaction using the end of day spot exchange rate between the functional and foreign currency on the transaction date.

Subsequently, at each reporting date, the Company translates foreign currency monetary items at the closing rate. Foreign exchange differences arising on translation or settlement of monetary items are recognised in the statement of comprehensive income during the period in which the gains or losses arise. Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction. Foreign currency non-monetary items measured at fair value will be translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity.

Revenue recognition

Finance leases

Finance lease income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Fees

Lease origination fees that are integral to the yield of a lease agreement are separately identified for deferral and recognised as revenue using the effective interest method.

2. Accounting policies (continued)

Revenue recognition (continued)

Lease origination costs that are associated with the commencement of a lease agreement are separately identified for deferral and recognised using the effective interest rate method. The net origination fee is recognised as lease income. Other fees receivable which are not an integral part of the effective interest rate are recognised as income as the Company fulfils its performance obligations.

Borrowing costs

All borrowing costs are expensed in the period that they occur and are reported through finance costs.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it is related to items recognised in equity, in which case the tax is also recognised in equity.

Income tax expense or revenue is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate adjusted by changes in deferred tax assets and liabilities.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.

Deferred tax

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses.

Financial instruments

Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet when the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the Company has discharged its obligation to the contract, or the contract is cancelled or expires.

Classification and measurement

The Company measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability (with the exception of financial assets or liabilities at fair value through profit or loss, where transaction costs are recognised directly in the income statement as they are incurred).

Financial assets

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories i) amortised cost; ii) fair value through other comprehensive income; or iii) fair value through profit or loss. The Company does not hold any financial assets classified at fair value.

2. Accounting policies (continued)

Financial assets (continued)

A financial asset is measured at amortised cost when (1) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (2) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding. The amortised cost classification applies to the Company's finance lease receivables and related party balances.

Impairment of financial assets

At each reporting date, the Company assesses financial assets measured at amortised cost for impairment and calculates the resultant impairment loss allowance using an expected credit loss (ECL) methodology.

The impairment loss allowance calculation reflects: (i) an unbiased and probability weighted amount; (ii) the time value of money which discounts the impairment loss; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Impairment of financial assets (continued)

The impairment loss allowance is calculated as either a 12-month or lifetime ECL depending on whether the financial asset has exhibited a significant increase in credit risk since origination or otherwise becomes credit-impaired as at the reporting date. A low credit risk option is available which, when exercised, allows entities to not assess whether there has been a significant increase in credit risk since initial recognition where the financial asset is deemed as being of low credit risk at the reporting date. This option has not been exercised in the Company.

The impairment loss allowance falls into the following three categories:

Stage 1

Where there are no indicators at the reporting date of a significant increase in credit risk since origination, a 12-month impairment loss allowance will be calculated.

Stage 2

Where a significant increase in credit risk since origination has been identified at the reporting date (but the financial asset is not credit-impaired) a lifetime impairment loss allowance will be calculated. Indicators of a significant increase in credit risk include a number of qualitative and quantitative triggers. The Company adopts the backstop position that a significant increase in credit risk will have taken place when the financial asset reaches 30 days past due.

Stage 3

Where the financial asset is assessed as being credit-impaired at the reporting date, a lifetime impairment loss allowance will be calculated. This is the case where the customer has an individually assessed provision in place. The Company adopts the backstop position that a financial asset becomes credit-impaired when it reaches 90 days past due.

Financial assets can move between stages when the relevant staging criteria are no longer satisfied. If the level of impairment loss reduces in a subsequent period, the previously recognised impairment loss allowance is reversed by adjusting the impairment loss provision. The amount of the reversal is recognised in the income statement.

When there is no reasonable expectation of recovery for a loan, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the expense in the income statement.

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss.

2. Accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement conveys a right to use the asset.

As lessor

Leases entered into by the Company as lessor, where the Company transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The net investment in the lease, which is comprised of the present value of the lease payments including any guaranteed residual value and initial direct costs, is recognised as a receivable.

The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Investment in controlled entities

The Company's investments in controlled entities are valued at cost or valuation less any provision for impairment.

Such investments are reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in controlled entities are recognised in the Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances carried at amortised cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The Company considers that the most significant use of accounting estimates and judgements relates to the recoverability of assets.

3. Other operating expenses

	2020 £'000	2019 £'000
Bad debt write off / (recovery)	30	(1)
Impairment provision charge (note 8)	4	1
Other expenses	205	181
	239	181

Other expenses relate to management recharge of £205,000 (2019: £181,000) which includes an audit fee for the year of £2,450 (2019: £2,350).

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

4. Taxation

	2020 £'000	2019 £'000
Current tax		
UK corporation tax		
Current year	(35)	(15)
Prior year	-	(2)
	(35)	(17)
Deferred tax		
Origination and reversal of temporary timing differences		
Current year	-	-
Prior year	-	2
	-	2
Income tax credit reported in Income Statement	(35)	(15)

	2020 £'000	2019 £'000
Loss on ordinary activities before tax	(183)	(79)
Tax income based on the standard rate of Corporation Tax in the UK of 19.0% (2019: 19.0%)	(35)	(15)
Total income tax credit for the year	(35)	(15)

5. Notes to the Statement of Cash Flows

	2020 £'000	2019 £'000
Operating assets		
Decrease in:		
Finance lease receivables (note 7)	167	234
	167	234

6. Investment in subsidiaries

Controlled entities at 30 September 2020 and 2019	Nature of business	Country of incorporation and principal operations
CGF No.9 Limited	Leasing	Scotland

The registered office address of CGF No. 9 Limited is 30 St Vincent Place, Glasgow, G1 2HL. The Company holds 100% of the issued share capital of CGF No. 9 Limited (100,000 £1 ordinary shares), a company incorporated under the Companies Act 2006.

As at 30 September 2020 the recoverable amount in CGF No. 9 Limited remains £Nil.

7. Finance lease receivables

	2020 £'000	2019 £'000
Less than 1 year	**117**	132
1-2 years	**100**	141
2-3 year	**96**	112
3-4 years	**16**	105
4-5 years	-	16
More than 5 years	-	-
Gross investment in finance lease and hire purchase receivables	329	506
Unearned finance income	(5)	(18)
Net investment in finance lease and hire purchase receivables	324	487
Impairment provision on credit exposure (note 8)	(8)	(5)
	316	483

At 30 September 2020, all finance lease receivables are classed as stage 1 financial assets under IFRS 9 (1 Oct 2019: £487,000 Stage 1). During the year there were repayments of £163,000, and there were no movements between stages (2019: no movements).

Details on the expected credit loss impairment provision can be found in note 8.

Notes to the Financial Statements (continued)

8. Impairment provision on credit exposures

	Stage 1 ECL £000s	Stage 2 ECL £000s	Stage 3 ECL £000s	Total Provision £000s
Opening balance at 1 October 2018	4	-	-	4
Remeasurements	1	-	-	1
Closing balance at 30 September 2019	5	-	-	5
Opening balance at 1 October 2019	5	-	-	5
Repaid	(1)			(1)
Remeasurements	4	-	-	4
Closing balance at 30 September 2020	8	-	-	8

9. Share capital

	Number	£'000
Authorised:		
Ordinary shares of £1 each		
At 30 September 2020 and 2019	50,000,000	50,000

	Number	£'000
Allotted, called up and fully paid:		
Ordinary shares of £1 each		
At 30 September 2020 and 2019	6,000,000	6,000

10. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprises the following balances due within three months at inception:

	2020 £'000	2019 £'000
Cash at bank (note 11)	12,122	11,976
Bank overdraft (note 11)	(11)	(20)
	12,111	11,956

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

11. Related party transactions

The Company receives a range of services from the ultimate parent and related parties, including loans and various administrative services.

	2020 £'000	2019 £'000
Amounts due from related entities		
Current assets		
Cash at bank - held with immediate parent (CB PLC)	12,122	11,976
	12,122	11,976
Amounts due to related entities		
Current liabilities		
Bank overdraft - held with immediate parent (CB PLC)	11	20
Amounts due to immediate parent (CB PLC)	819	663
	830	683
Profit and loss transactions with related entities during the year:		
Finance income - received from immediate parent (CB PLC)	47	87
Recharges from immediate parent (CB PLC)	205	181

12. Management of risk

Risk management framework

Effective management of risk is a key capability for a successful financial services provider and is fundamental to the Company's strategy as well as that of its immediate parent, CB PLC, and of its ultimate parent entity Virgin Money UK PLC. The Company has continued to advance and strengthen its risk capabilities, evolving in line with industry developments and best practice.

Risk principles

The Company operates within the Risk Management Framework ("RMF") of the Group. The Group's approach to risk management is based on a principle that risk management capability must be embedded within the business' front line teams to be effective. This overriding principle embodies the following concepts:

- commercial decisions are made on the basis of proactive consideration of risk and the potential impact on customers;
- business managers use the RMF to support decision making involving risk and reward trade offs; and
- employees are responsible for risk management in their day to day activities.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

12. Management of risk (continued)

Risk strategy

The Group has a clearly defined strategy in order to manage and mitigate risk in the daily course of its business. The strategy consists of:

- ensuring all principal and emerging risks are identified and assessed;
- ensuring risk appetite is clearly articulated and influences the Group's strategic plan;
- a clearly defined risk culture which emphasises risk management throughout all areas of the business whilst maintaining independent oversight;
- ongoing analysis of the environment in which the Group operates to proactively address potential risk issues as they arise; and
- supporting commercial decisions and people with appropriate risk processes, systems and controls.

Risk Appetite Statement ("RAS")

'Risk Appetite' is defined as the level and types of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The RAS articulates and supports communication of the Group's appetite to stakeholders.

Risk management framework

The Group identifies and manages risk using the RMF, which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk. Virgin Money UK PLC Board oversight of risk management is facilitated by the Virgin Money UK PLC Boards' Risk and Audit Committees. The Virgin Money UK PLC Board approves the Group's overall governance, risk and control frameworks and risk appetite.

Risk Culture

Central to the Group's risk culture is the fair treatment of customers and meeting obligations to stakeholders, including shareholders and employees. The Board and senior management are responsible for offsetting and clearly communicating a strong risk culture through their actions and words, and proactively addressing any identified areas of weakness or concern.

Underpinning the RMF and at the heart of the Group's culture, is the concept of personal accountability for risk management at source. This is enabled through a risk management accountability model and a formal delegation framework through which employees are able to make risk based decisions.

Risk policies and procedures

The policy framework is a key component of the Group's RMF providing structure and governance for the consistent, effective management of policies. Policy statements and supporting policy standards define the minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

Three Lines of Defence

Effective operation of a Three Lines of Defence model is integral to the Group's approach to risk management and is based on an overriding principle that risk capability must be embedded within the first line of defence teams to be effective. This principle embodies the following concepts:

- commercial decisions are made on the basis of proactive consideration of risk and the impact on customers;
- risk management activities are focused on enhancing sustainable business performance;
- management must use the RMF to support decision making involving risk and reward trade offs;
- regular assessments are undertaken to confirm the effectiveness of the Risk and Control Frameworks in relation to both the current and emerging risk profile; and
- risk management responsibilities are clearly understood by all employees when carrying out their day to day activities.

Control is exercised through a clearly defined delegation of authority, with communication and escalation channels throughout the Group.

For further detail on the Group RMF please refer to the Risk Report within the VMUK PLC Annual Financial Report.

Notes to the Financial Statements (continued)

12. Management of risk (continued)

Credit risk

Credit risk is the potential that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and / or products that the Company offers (primarily finance leases).

The Company controls the levels of credit risk it takes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical, product and industry segments. The management of credit risk within the Company is achieved through both approval and monitoring of individual transactions, regular asset quality analysis of the performance of the various credit risk portfolios.

Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Assets	**2020**	2019
	£'000	£'000
Finance lease receivables (note 7)	**316**	483
Due from related entities	**12,122**	11,976
	12,438	12,459

The assets provided to customers under finance leases are the Company's main source of collateral and means of mitigating loss in the event of default. There are no undrawn commitments to which the Company is exposed. The credit quality of assets is disclosed within the consolidated financial statements of its immediate parent, CB PLC.

Cash flows payable under financial liabilities by contractual maturity

The table below illustrates when the cash flows fall due for all future financial obligations within the Company,

2020	**Less than 3 months or call**	**3 to 12 months**	**No specific maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Liabilities				
Due to related entities	**830**	**-**	**-**	**830**

2019	Less than 3 months or call	3 to 12 months	No specific maturity	Total
	£'000	£'000	£'000	£'000
Liabilities				
Due to related entities	683	-	-	683

13. Capital management overview

The Company is governed by VMUK Group's Capital Management Policy. The objectives of the VMUK Group's Capital Management Policy are to efficiently manage the capital base to optimise shareholder returns whilst maintaining robust capital adequacy, meeting Regulators requirements and managing the ratings agencies assessment of the Group.

The Company is not subject to externally imposed capital requirements; however, its capital is managed as part of the VMUK Group.

The Company manages the following items as capital:

	2020 £'000	2019 £'000
Share capital	6,000	6,000
Retained earnings	5,643	5,791
	11,643	11,791

14. Events after the balance sheet date

There were no events after the balance sheet date that require disclosure.