

Annual Report and Financial Statements

Clydesdale Bank Asset Finance Limited

For the year ended 30 September 2021

Company number: SC113775



Clydesdale Bank Asset Finance Limited

Annual Report and Financial Statements

For the year ended 30 September 2021

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Clydesdale Bank Asset Finance Limited

Directors and Professional Advisers

Directors	Hugh Chater Clifford Abrahams Gavin Opperman (resigned 1 October 2021)
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 2021.

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 10. The Company made a loss after tax of £50,000 in the current year, compared to a loss after tax of £148,000 in the year ended 30 September 2020.

Finance lease income has decreased by £6,000 (67%) in the year to £3,000, reflecting the continued reduction in the Company's finance lease book. Finance income has decreased by £35,000 (74%) in the year to £12,000 due to a decrease in interest received on cash balances during the year as a result of rate changes.

The Company's Balance Sheet for the year is set out on page 11. The Company's total assets have increased by £8,000 (0.1%) and total liabilities have increased by £58,000 (7%) at 30 September 2021 when compared to total assets and liabilities at 30 September 2020. The increase in total assets was mainly due to an increase in amounts due to related entities of £145,000 in respect of bank accounts held with CB PLC, which has been offset by a reduction of £113,000 in finance lease receivables and a reduction of £24,000 in group relief receivable. The increase in total liabilities was driven primarily by an increase of £58,000 in amounts due to related entities; attributable mainly to the current year 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

The Company is exposed to a variety of risks through its normal operations. The most significant risks are described below.

- **Credit risk:** the risk that a counterparty fails to pay the Company monies owed. The Company manages this risk by undertaking due diligence on prospective counterparties and monitoring their position on an ongoing basis.
- **Market risk:** includes liquidity risk and interest rate risk. The primary objective for the management and oversight of market risk is to maintain the risk profile within approved risk appetite and limits, while implementing strategies that optimise stable current and future earnings from the impact of market volatility.
 - **Liquidity risk:** the risk that the Company is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, and the payment of dividends.
 - **Interest rate risk:** comprises the sensitivity of the Company's current and future net interest income and economic value to movements in market interest rates. Interest rate risk is principally managed at the Virgin Money UK PLC Group level.
- **Compliance risk:** the risk that the Company fails to comply with its regulatory requirements with the potential that the Company:
 - treats customers unfairly, potentially exposing them to financial or other detriment;
 - is subject to legal or regulatory sanction;
 - suffers reputational damage; or
 - is used for the purposes of financial crime.

The Group Risk function supports the Company to develop policies, deliver training and perform monitoring checks to ensure compliance with regulatory requirements.

- **Legal risk:** the risk of legal sanction, material financial loss or loss of reputation that the Company may suffer as a result of its failure to comply with the law, inadequately document its contractual arrangements or inadequately assess and implement changes required by forthcoming legislation or emerging case law. The Group Legal function supports the Company in meeting its contractual obligations and assessing legal developments.
- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. A range of indicators covering the Company's operations is reviewed by the Board regularly throughout the year. All key business processes are subject to periodic reviews by the Group's Risk and Internal Audit teams to ensure that appropriate controls are in place and operating effectively.

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 14 December 2021 and was signed on its behalf by:



Clifford Abrahams

Director

14 December 2021

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 2021.

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 2021 amounted to £50,000 (2020: £148,000). No dividend was paid during the year (2020: £Nil). The Directors do not propose a final dividend in respect of this financial year (2020: £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

Clifford Abrahams was appointed as a Director on 8 March 2021. Hugh Chater was appointed as a Director on 1 October 2021.

Resignations

Mark Thundercliffe resigned on 7 March 2021. Gavin Opperman resigned as a Director on 1 October 2021.

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 £3,000 (2020: £3,000); 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 (2020: £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 of 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 14 December 2021 and was signed on its behalf by

A handwritten signature in black ink, appearing to be 'CJA' followed by a stylized flourish.

Clifford Abrahams
Director

14 December 2021

Clydesdale Bank Asset Finance Limited

Independent Auditor's Report to the Members of CBAF Limited

Opinion

We have audited the financial statements of Clydesdale Bank Asset Finance Limited for the year ended 30 September 2021 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's going concern assessment for the company, including forecasts for the going concern period covering at least 12 months from the approval of the financial statements.
- We evaluated the company's forecasts and challenged key assumptions in the context for company historical records.
- We compared previous periods' budgeted financial information with historical actual results, in order to form a view on the reliability of management's forecasting process.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and board meeting minutes to identify events or conditions that may impact the company's ability to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

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

Clydesdale Bank Asset Finance Limited

Independent Auditor's Report to the Members of CBAF Limited (continued)

Other information (continued)

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 set out on page 5, 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.

Clydesdale Bank Asset Finance Limited

Independent Auditor's Report to the Members of CBAF Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

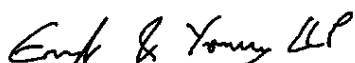
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, UK Tax Legislation as enforced by HM Revenue and Customs and International Accounting Standards.
- We understood how the company is complying with those frameworks by making enquiries of management, and through discussions with those charged with governance. We also reviewed minutes of the Board and gained an understanding of the company's approach to governance, demonstrated by the Board's approval of the company's governance framework.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by obtaining an understanding of the company's fraud risk assessment process, inspecting the company's fraud prevention policies and inquiring with appropriate levels of management and other personnel.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved testing key entity-level controls, inquiring with Legal Counsel and the Head of Fraud Strategy Integration regarding their knowledge of any actual or suspected fraud or non-compliance, reviewing legal and regulatory correspondence, the litigation register and Board minutes.

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.



Blake Adlem (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
15 December 2021

Clydesdale Bank Asset Finance Limited

Statement of Comprehensive Income

For the year ended 30 September 2021

	Note	2021 £'000	2020 £'000
Finance lease income		3	9
Finance Income		12	47
Total income		15	56
Other operating expenses	3	(79)	(235)
Operating loss before impairment losses		(64)	(179)
Impairment credit/(losses) on credit exposure	8	3	(4)
Loss on ordinary activities before tax		(61)	(183)
Tax credit	4	11	35
Total comprehensive loss for the year attributable to equity holders of the parent		(50)	(148)

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 14 to 23 form an integral part of these financial statements.

Clydesdale Bank Asset Finance Limited

Balance Sheet

As at 30 September 2021

	Note	2021 £'000	2020 £'000
Assets			
Finance lease receivables	7	203	316
Due from related entities	11	12,267	12,122
Group relief receivable		11	35
Total assets		12,481	12,473
Liabilities			
Due to related entities	11	888	830
Total liabilities		888	830
Shareholders' equity			
Share capital	9	6,000	6,000
Retained earnings		5,593	5,643
Total shareholders' equity		11,593	11,643
Total liabilities and equity		12,481	12,473

The notes on pages 14 to 23 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 14 December 2021 and were signed on its behalf by:



Clifford Abrahams
Director

14 December 2021

Company number: SC113775

Clydesdale Bank Asset Finance Limited

Statement of Changes in Equity

For the year ended 30 September 2021

	Share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 October 2019	6,000	5,791	11,791
Total comprehensive loss for the year	-	(148)	(148)
Balance as at 30 September 2020 attributable to parent	<u>6,000</u>	<u>5,643</u>	<u>11,643</u>
Total comprehensive loss for the year	-	(50)	(50)
Balance as at 30 September 2021 attributable to parent	<u>6,000</u>	<u>5,593</u>	<u>11,593</u>

The notes on pages 14 to 23 form an integral part of these financial statements.

Clydesdale Bank Asset Finance Limited

Statement of Cash Flows

For the year ended 30 September 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Loss before tax		(61)	(183)
<i>Adjustments for:</i>			
<i>Non-cash or non-operating items included in profit before tax</i>			
Finance Income		(12)	(47)
Operating expenses		81	205
Changes in operating assets	5	113	167
Group relief received		35	15
Net cash provided by operating activities		156	157
Cash flows from investing activities		-	-
Cash flows from financing activities			
Interest paid		(1)	(2)
Net cash used in financing activities		(1)	(2)
Net increase in cash and cash equivalents		155	155
Cash and cash equivalents at beginning of the year		12,111	11,956
Cash and cash equivalents at end of the year	10	12,266	12,111

The notes on pages 14 to 23 form an integral part of these financial statements.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements

For the year ended 30 September 2021

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 2021 were authorised for issue by the Board of Directors on 14 December 2021.

Basis of measurement

The financial information has been prepared under the historical cost convention. 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 risk and capital management policies and objectives.

In assessing the Company's going concern position as at 30 September 2021, the Directors have considered a number of factors, including the current balance sheet, specifically the retained earnings position and the Company's ongoing income and expenditure, taking account of possible changes in trading performance. 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.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

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:

- amendments to IFRS 3 'Business Combinations' issued October 2018 and effective for financial years beginning on or after 1 January 2020. This amendment revises the definition of a business and will assist in clarifying whether a transaction is an asset acquisition or a business combination; and
- amendment to IAS 1 and IAS 8 'Definition of Material' issued in October 2018 and effective prospectively for financial years beginning on or after 1 January 2020. The amendments are intended to make the definition of material easier to understand and are not intended to alter the underlying concept of materiality in IASs. The concept of obscuring material information with immaterial information has been included as part of the new definition.

New accounting standards and interpretations not yet adopted

The IASB has issued a number of minor amendments to IASs that are not mandatory for 30 September 2021 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.

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.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

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 represents current 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 year's taxable income based on the applicable tax rate.

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 years.

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.

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.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

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.

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 statement of comprehensive income.

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 statement of comprehensive income.

Financial liabilities

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

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

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. Gains or losses on the disposal or part disposal of an investment in a controlled entity are also recognised within the statement of comprehensive income within other operating 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

	2021 £'000	2020 £'000
Bad debt (recovery) / provision	(2)	30
Other expenses	81	205
	<hr/>	<hr/>
	79	235
	<hr/>	<hr/>

Other expenses relate to management recharge of £80,000 (2020: £205,000) which includes an audit fee for the year of £3,600 (2020: £2,450).

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

4. Taxation

	2021 £'000	2020 £'000
Current tax		
UK corporation tax		
Current year	(11)	(35)
	<u>(11)</u>	<u>(35)</u>
	2021 £'000	2020 £'000
Loss on ordinary activities before tax	(61)	(183)
	<u>(61)</u>	<u>(183)</u>
Tax income based on the standard rate of Corporation Tax in the UK of 19.0% (2018: 19.0%)	(11)	(35)
	<u>(11)</u>	<u>(35)</u>
Total income tax credit for the year	<u>(11)</u>	<u>(35)</u>

The UK corporate tax rate is legislated to increase to 25% for companies above the small profits threshold from 1 April 2023, as introduced in the Finance Bill 2021 which was published on 11 March 2021. This change was substantively enacted on 24 May 2021.

5. Notes to the Statement of Cash Flows

	2021 £'000	2020 £'000
Operating assets		
Decrease in:		
Finance lease receivables (note 7)	113	167
	<u>113</u>	<u>167</u>

6. Investment in subsidiaries

Controlled entities at 30 September 2021 and 2020

	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 2021 the recoverable amount in CGF No. 9 Limited remains £Nil.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

7. Finance lease receivables

	2021 £'000	2020 £'000
GROSS INVESTMENT IN FINANCE LEASE AND HIRE PURCHASE RECEIVABLES		
Less than 1 year	99	117
1-2 years	95	100
2-3 year	16	96
3-4 years	-	16
4-5 years	-	-
More than 5 years	-	-
Gross investment in finance lease and hire purchase receivables	210	329
Unearned finance income	(1)	(5)
Net investment in finance lease and hire purchase receivables	209	324
Impairment provision on credit exposure (note 8)	(6)	(8)
	203	316

At 30 September 2021, all finance lease receivables are classed as stage 1 financial assets under IFRS 9 (1 Oct 2020: £324,000 Stage 1). During the year there were repayments of £105,000 (2020: £163,000) and there were no movements between stages (2020: no movements).

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

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 2019	5	-	-	5
Repaid	(1)	-	-	(1)
Remeasurements	4	-	-	4
Closing balance at 30 September 2020	8	-	-	8
Opening balance at 1 October 2020	8	-	-	8
Repaid	(2)	-	-	(2)
Closing balance at 30 September 2021	6	-	-	6

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

9. Share capital

	Number	£'000
Authorised:		
Ordinary shares of £1 each		
At 30 September 2021 and 2020	50,000,000	50,000
	Number	£'000
Allotted, called up and fully paid:		
Ordinary shares of £1 each		
At 30 September 2021 and 2020	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:

	2021 £'000	2020 £'000
Cash at bank (note 11)	12,267	12,122
Bank overdraft (note 11)	(1)	(11)
	12,266	12,111

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.

	2021 £'000	2020 £'000
Amounts due from related entities		
Current assets		
Cash at bank – held with immediate parent (CB PLC)	12,267	12,122
	<hr/>	<hr/>
	12,267	12,122
	<hr/>	<hr/>
Amounts due to related entities		
Current liabilities		
Bank overdraft – held with immediate parent (CB PLC)	1	11
Amounts due to immediate parent (CB PLC)	887	819
	<hr/>	<hr/>
	888	830
	<hr/>	<hr/>
Profit and loss transactions with related entities during the year:		
Finance income – received from immediate parent (CB PLC)	12	47
	<hr/>	<hr/>
Recharges from immediate parent (CB PLC)	80	205
	<hr/>	<hr/>

12. Management of risk and capital

Management of risk

The Company's operations expose it to credit risk, liquidity risk, market risk and interest rate risk. Responsibility for the control of overall risk lies with the Directors, operating within a management framework that aligns to that of its immediate parent, CB PLC, and of its ultimate parent entity Virgin Money UK PLC.

Credit risk

Credit risk is the potential that a counterparty will be unable to pay amounts in full when due. The Company relies on the Group's credit risk policies, procedures and mitigation strategies to manage credit risk. These are regularly reviewed and updated where necessary.

No significant transactions occur outside of the UK and the carrying value of financial assets as shown on the balance sheet on page 11 represents the Company's maximum exposure to credit risk. The Company has no undrawn exposures or commitments and has no material credit concentration risk exposure.

The Company's financial assets held at amortised cost are assessed regularly for recoverability, and an expected credit loss allowance calculated and provided for where material.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due, at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, and the payment of dividends.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

12. Management of risk and capital (continued)

The Company is primarily funded by companies within the Group; with the overall liquidity within the Group managed centrally and monitored by both Treasury and Company management with additional funding provided to meet the Company's financial obligations as required.

The Directors do not believe there is a significant exposure to liquidity risk due to the related party nature of funding and liability exposures with fellow Group companies.

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

2021	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Due to related entities	888	-	-	-	-	-	888
	888	-	-	-	-	-	888

2020	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Due to related entities	830	-	-	-	-	-	830
	830	-	-	-	-	-	830

Market risk

Market risk for the Company includes liquidity risk and interest rate risk. The primary objective for the management and oversight of market risk is to maintain the risk profile within approved risk appetite and limits, while implementing strategies that optimise stable current and future earnings from the impact of market volatility.

Policies relating to market risks are approved by the Board of the Virgin Money UK PLC Group. The consistent application of suitable policies across the Group is the responsibility of the Group's Board with the support of executive management governance committees.

Interest rate risk

Interest rate risk comprises the sensitivity of the Company's current and future net interest income and economic value to movements in market interest rates. Interest rate risk is principally managed at the Virgin Money UK PLC Group level.

Management of capital

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

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

Further detail on the wider risks the Group is exposed to, the mitigations in place to manage those risks and how the Group's liquidity and capital are managed can be found in the Risk Report within the Virgin Money UK PLC Annual Report and Accounts.

13. Events after the balance sheet date

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