

Annual report and financial statements

Virgin Money Holdings (UK) PLC

For the year ended 30 September 2021

Company Number: 03087587

Virgin Money Holdings (UK) PLC

Annual report and financial statements For the year ended 30 September 2021

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Virgin Money Holdings (UK) PLC

Officers and professional advisers

Directors	David Duffy Clifford Abrahams (appointed on 8 March 2021) Enda Johnson (appointed on 14 October 2020, resigned on 7 March 2021) Ian Smith (resigned on 14 October 2020)
Secretary	Lorna McMillan
Registered office	Jubilee House Gosforth Newcastle upon Tyne NE3 4PL
Independent auditors	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX

Strategic report

The Directors of Virgin Money Holdings (UK) PLC (the 'Company') present their Strategic report for the year ended 30 September 2021.

Principal activities and business structure

The Company is a wholly owned subsidiary of Clydesdale Bank PLC whose ultimate parent company is Virgin Money UK PLC. References in this Annual report and financial statements to "Group" or "Virgin Money" mean Virgin Money UK PLC and its subsidiaries.

The Company acts as an intermediate holding company.

The Company qualifies for the exemptions from preparing consolidated financial statements under Section 400 of the Companies Act 2006. These financial statements are therefore prepared on an individual company basis.

With effect from 6 May 2020, the financial year end of the Company was changed from 31 December to 30 September to align with the year-end of its ultimate parent company. Accordingly, the comparative period within this Annual report is for nine months to 30 September 2020.

Financial analysis

The income statement for the year is set out on page 8. The Company made a loss before tax of £21.5m in the year, compared to a loss before tax of £4.7m in the prior period.

Non-interest (expense)/income has decreased by £9.6m to an expense of (£6.5m) compared to income of £3.1m for the period ended 30 September 2020, primarily due to the loss on disposal of the Company's investment in Virgin Money Unit Trust Managers Limited. No dividends were received in the current year. Operating and administrative expenses decreased by £0.1m to £3.2m driven by a decrease in Group recharges. An impairment loss on investments in controlled entities of £11.8m was also recognised in the current year (9 months to 30 September 2020: £4.5m) as a result of an impairment of the Company's investment in Virgin Money Personal Financial Services Limited (note 3.1).

The Company's balance sheet is set out on page 10. The Company's total assets decreased by £21.6m and total liabilities decreased by £0.5m as at 30 September 2021, resulting in an overall net reduction in total equity of £21.1m.

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 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.

Stakeholder engagement and Board decision making (s.172 compliance)

Section 172(1) of the Companies Act 2006 requires directors to act in good faith and in a way that they consider most likely to promote the success of the Company for the benefit of its members as a whole.

As the Company is part of the wider Group, where matters impact other entities amongst the Group and have a wider application, stakeholder engagement is led by Virgin Money UK PLC. Further information on how the Group engages with its stakeholders can be found in the Strategic report within the Group's Annual Report and Accounts.

Every decision made by the Board considers in detail the impact on the Company's key stakeholders to ensure that the success of the Company is promoted over the long term for the benefit of the Group. In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the directors confirm that they have both engaged with and had regard to the interest of key stakeholders in their duties as directors of the Company.

Future developments

In relation to the coronavirus outbreak, our business continuity plans are working well. Any associated risks are considered to be immaterial given that the Company acts as an intermediate holding company. The Directors have a plan in place to ensure the continuation of the Company's operations during COVID-19 and we have no reason to believe, at this stage, it will impact the going concern of the Company.

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

Strategic report (continued)

Principal risks

The Company acts as an intermediate holding company and is exposed to a variety of risks through its normal operations. The Company's most significant risks are described below:

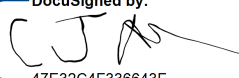
Financial risk: Covers a number of risk categories, including capital risk, funding risk and liquidity risk. Financial risk is monitored on a regular basis and is supported by intercompany facilities and arrangements with the Company's parent entity.

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.

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. All key business processes are subject to periodic reviews on a risk prioritised basis by the Group's Risk and Internal Audit teams to ensure that appropriate controls are in place and operating effectively.

Compliance risk: The risk that the Company fails to comply with its regulatory and legislative requirements. Compliance risk is managed at a Group level and is mitigated through oversight by the Regulatory Management team and regular reporting to the Risk Committee.

This report was approved by the Board on 17 March 2022 and signed on its behalf by:

DocuSigned by:

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Clifford Abrahams
Director

Directors' report

The Directors of the Company submit their report and financial statements 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 Company made a loss before tax for the year of £21.5m (9 months to 30 September 2020: £4.7m).

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management objectives and policies of the Company in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' report, and which is incorporated into this report by reference, can be found in the Strategic report.

Directors and Directors' interests

The current Directors are shown on page 1. Directors who are not full-time employees of the Group or a related body corporate are appointed in accordance with the Articles of Association and may be eligible for reappointment thereafter.

Directors' interests

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

Directors' liabilities

During the year, the Group paid a premium for a contract insuring the Directors and officers of the Group, 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 Company 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 Directors of Clydesdale Bank PLC, and do not receive incremental remuneration in respect of their duties as Directors of the Company.

Stakeholder engagement and business relationships

Details of stakeholder engagement relevant to the Company are set out in the Strategic report above and within the Governance report within the Virgin Money UK PLC Annual Report and Accounts.

Employees

The Company does not have any employees. All staff are provided by the Group and its subsidiary undertakings, and an element of their cost is recharged to the Company through the Group recharges.

Political donations

No political donations were made during the year (2020: £Nil).

Research and development costs

The Company does not undertake formal research and development activities.

Management of risk

Risk and capital related disclosures for the Company are included within the Strategic report. The information contained within these disclosures has not been audited by the Company's external auditor.

Risk and capital related disclosures for Virgin Money UK PLC can be found in the Virgin Money UK PLC Pillar 3 Report, <https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/> and also within the Risk report section of the Virgin Money UK PLC Annual Report and Accounts.

Related parties

Details of related party transactions are set out in note 5.2 of the financial statements.

Directors' report (continued)**Share capital**

Information about share capital is shown in note 4.1 of 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 preparation of the accounts is discussed in note 1.3 to the financial statements.

Events after the balance sheet date

There have been no significant events between 30 September 2021 and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

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, they are required to prepare the financial statements in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006. 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 (IAS) 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 of 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 IASs, 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 and provide an explanation where this is not the case.

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.

Auditors and disclosure of information to the auditors

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

- 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 auditor is unaware; and
- 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 auditor is aware of that information.

By order of the Board

DocuSigned by:



Lorna McMillan
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Company Secretary

17 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) PLC

Opinion

We have audited the financial statements of Virgin Money Holdings (UK) PLC for the year ended 30 September 2021 which comprise the Income statement, Statement of comprehensive income, Balance sheet, Statement of changes in equity, the Statement of cash flows and the related notes 1 to 5.2, 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.

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 at least 12 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) PLC (continued)

Matters on which we are required to report by exception

In 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 Statement of Directors' responsibilities 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.

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
18 March 2022*

Virgin Money Holdings (UK) PLC

Income statement

	Note	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Non-interest (expense)/income	2.1	(6.5)	3.1
Total operating and administrative expenses	2.2	<u>(3.2)</u>	<u>(3.3)</u>
Operating loss before impairment losses		(9.7)	(0.2)
Impairment losses on investments in controlled entities	3.1	<u>(11.8)</u>	<u>(4.5)</u>
Loss on ordinary activities before tax		(21.5)	(4.7)
Tax credit	2.3	0.6	-
Loss for the period attributable to equity holders		<u>(20.9)</u>	<u>(4.7)</u>

The notes on pages 13 to 22 form an integral part of these financial statements.

Virgin Money Holdings (UK) PLC

Statement of comprehensive income

	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Loss after tax for the period	<u>(20.9)</u>	<u>(4.7)</u>
Items that will not be reclassified to the income statement		
<i>Change in fair value through other comprehensive income reserve</i>		
Gains/(losses) during the period	<u>0.3</u>	<u>(0.4)</u>
Total comprehensive losses for the period, net of tax, attributable to equity holders	<u><u>(20.6)</u></u>	<u><u>(5.1)</u></u>

The notes on pages 13 to 22 form an integral part of these financial statements.

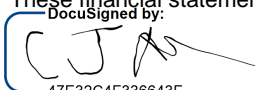
Virgin Money Holdings (UK) PLC

Balance sheet

	Note	2021 £m	2020 £m
Assets			
Cash and cash equivalents		5.6	4.7
Financial instruments at fair value through other comprehensive income	3.3	0.2	0.1
Investments in controlled entities and associates	3.1	17.0	28.8
Investments in joint ventures	3.1	-	10.8
Current tax assets		0.1	0.2
Deferred tax assets	3.2	2.4	2.0
Due from related entities	5.2	0.1	0.4
Total assets		25.4	47.0
Liabilities			
Current tax liabilities		-	0.1
Due to related entities	5.2	0.4	0.8
Total liabilities		0.4	0.9
Equity			
Share capital and share premium	4.1	1,135.9	1,135.9
Other reserves	4.1	-	(0.4)
Retained earnings		(1,110.9)	(1,089.4)
Total equity		25.0	46.1
Total liabilities and equity		25.4	47.0

The notes on pages 13 to 22 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 March 2022 and were signed on its behalf by:

DocuSigned by:

 47E32C4F336643F...
 Clifford Abrahams
 Director

Company name: Virgin Money Holdings (UK) PLC
 Company number: 03087587

Virgin Money Holdings (UK) PLC

Statement of changes in equity

	Notes	Share capital and share premium £m	Fair value through other comprehensive income reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2020		1,135.9	(0.5)	(1,083.8)	51.6
Loss for the period		-	-	(4.7)	(4.7)
Other comprehensive losses		-	(0.4)	-	(0.4)
Total comprehensive losses, net of tax		-	(0.4)	(4.7)	(5.1)
Settlement of share awards on vesting		-	0.5	(0.9)	(0.4)
As at 30 September 2020	4.1	1,135.9	(0.4)	(1,089.4)	46.1
Loss for the period		-	-	(20.9)	(20.9)
Other comprehensive income		-	0.3	-	0.3
Total comprehensive income/(losses), net of tax		-	0.3	(20.9)	(20.6)
Settlement of share awards on vesting		-	0.1	(0.6)	(0.5)
As at 30 September 2021	4.1	1,135.9	-	(1,110.9)	25.0

The notes on pages 13 to 22 form an integral part of these financial statements.

Virgin Money Holdings (UK) PLC

Statement of cash flows

	Notes	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Operating activities			
Loss on ordinary activities before tax		(21.5)	(4.7)
<i>Adjustments for:</i>			
Non-cash or non-operating items included in loss before tax	5.1	21.3	4.4
Changes in operating assets	5.1	0.3	(0.2)
Changes in operating liabilities	5.1	(0.4)	0.4
Tax received		0.1	2.5
Net cash (used in)/provided by operating activities		<u>(0.2)</u>	<u>2.4</u>
Cash flows from investing activities			
Purchase of ordinary shares issued by Virgin Money Unit Trust Managers Limited		(3.8)	(1.6)
Proceeds from sale of interest in Virgin Money Unit Trust Managers Limited		5.2	-
Purchase of financial instruments at fair value through other comprehensive income		(0.3)	-
Net cash provided by/(used in) investing activities		<u>1.1</u>	<u>(1.6)</u>
Net increase in cash and cash equivalents		0.9	0.8
Cash and cash equivalents at the beginning of the period		4.7	3.9
Cash and cash equivalents at the end of the period	5.1	<u><u>5.6</u></u>	<u><u>4.7</u></u>

The notes on pages 13 to 22 form an integral part of these financial statements.

Notes to the financial statements

Section 1: Basis of preparation and accounting policies

1.1 General information

Virgin Money Holdings (UK) PLC is incorporated and registered in England and Wales. The Company is a wholly owned subsidiary of Clydesdale Bank PLC, a company incorporated and registered in Scotland.

The Company's ultimate parent is Virgin Money UK PLC, a company incorporated and registered in England and Wales.

The smallest group in which the results of the Company are consolidated is that headed by Clydesdale Bank PLC. Virgin Money UK PLC heads the largest group in which the results of the Company are consolidated. The consolidated financial statements of Virgin Money UK PLC may be obtained from its registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL. All references in the financial statements to 'the Group' refer to Virgin Money UK PLC and its subsidiaries, including the Company.

As permitted by section 400 of the Companies Act 2006 the Company has not prepared consolidated financial statements.

1.2 Basis of preparation

The financial statements, which should be read in conjunction with the Strategic report and the Directors' report, have been prepared in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006⁽¹⁾.

The financial information has been prepared under the historical cost convention. A summary of key accounting policies is set out in note 1.5.

1.3 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.

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.

1.4 New accounting standards and interpretations

New accounting standards and interpretations adopted

The Company has adopted no new or amended material International Accounting Standards Board (IASB) pronouncements in the current financial year.

Those IASB pronouncements that are effective for financial years beginning on or after 1 January 2020 and would have been applicable for entities with an accounting date commencing on 1 October 2020, have already been adopted by the Company in the shortened prior period that commenced on 1 January 2020.

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.

⁽¹⁾ As the Company's accounting year straddles 31 December 2020, the date the UK ceased to be subject to EU law, the 2021 published financial reports are required to follow EU adopted international accounting standards. From 1 October 2021, the Company will follow and refer only to UK adopted international accounting standards, with the UK Endorsement Board being the body responsible for providing authorisation for the use of new IASB standards, amendments or interpretations in the UK from 1 January 2021. As at 30 September 2021, there were no material endorsement disparities between the UK and EU.

Notes to the financial statements

Section 1: Basis of preparation and accounting policies

1.5 Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company 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 hundred thousand pounds sterling (£0.1m) unless otherwise stated.

Revenue recognition

Net interest income

Interest income is reflected in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating amortisation using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) excluding future credit losses. The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Where it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Gains less losses on financial instruments at fair value

This represents fair value gains and losses from derivatives and other financial instruments classified as fair value through profit or loss, where the change in fair value of the derivatives is recognised exclusive of interest income and expense arising on any such instruments economically hedging other interest bearing assets and liabilities.

Other operating income

Dividend income is recognised when the right to receive payment is established.

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 year'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 years.

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 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 tax asset is realised, or the deferred 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.

Cash and cash equivalents

These are classified as financial assets at amortised cost. For the purposes of statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

Notes to the financial statements

Section 1: Basis of preparation and accounting policies

1.5 Accounting policies (continued)

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.

A financial asset is measured at amortised cost when (i) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (ii) 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 cash and cash equivalents related party balances.

Financial liabilities

All financial liabilities are measured at amortised cost.

Offsetting

A financial asset and a financial liability shall be offset, and the net amount presented on the balance sheet if, and only if, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Investments in controlled entities, associates and joint ventures

The Company's investments in controlled entities, associates and joint ventures 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, associates and joint ventures are recognised in the statement of comprehensive income. Gains or losses on the disposal or part disposal of an investment in a controlled entity, associates and joint ventures are also recognised within the Statement of Comprehensive Income within other operating income.

Share capital and share premium

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.

Share premium

Share premium substantially represents the aggregate of all amounts that have ever been paid above par value to the Company when it has issued ordinary or deferred shares. Certain incremental expenses in relation to the issue of share capital can be offset against the share premium account.

Fair value through other comprehensive income reserve

The reserve records the unrealised gains and losses arising from changes in the fair value of financial instruments at fair value through other comprehensive income.

On derecognition, the cumulative gains or losses previously recognised in this reserve are recycled to the income statement and recognised in 'Other operating income', except for equity investments where the cumulative gains or losses are transferred within equity to 'Retained earnings'.

Notes to the financial statements

Section 1: Basis of preparation and accounting policies

1.5 Accounting policies (continued)

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's Directors. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

1.6 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IAS requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses reported in these financial statements. Assumptions made at each balance sheet date are based on best estimates at that date and are reviewed by the Directors at each reporting 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. This is reviewed at each reporting date by the Directors.

Notes to the financial statements

Section 2: Results for the period

2.1 Non-interest (expense)/income

	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Other operating (expense)/income		
Loss on disposal of investment in Virgin Money Unit Trust Managers Limited ⁽¹⁾	(9.4)	-
Other income	2.9	3.1
	<u>(6.5)</u>	<u>3.1</u>
Non-interest (expense)/income	<u>(6.5)</u>	<u>3.1</u>

(1) The Company sold its investment in Virgin Money Unit Trust Managers Limited to Clydesdale Bank PLC on 10 December 2020. Consideration of £5.2m was received, reflecting the fair value of the Company's investment, with a loss of £9.4m recorded by the Company on the disposal.

2.2 Operating and administrative expenses

Expenses of £3.2m in the year (9 months to 30 September 2020: £3.3m) have been recharged from other Group members. Refer to note 5.2.

	12 months to 30 Sep 2021 £'000	9 months to 30 Sep 2020 £'000
Auditor's remuneration		
Fees payable to the Company's auditors for the audit of the Company's accounts	<u>25</u>	<u>21</u>

Audit fees for the current year are included within other operating and administrative expenses. They were borne by the Company's parent, Clydesdale Bank PLC, in the prior period

2.3 Taxation

	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Current tax		
Group relief (receivable)/payable	(0.1)	0.1
Adjustment in respect of prior years	(0.1)	0.5
	<u>(0.2)</u>	<u>0.6</u>
Deferred tax (note 3.2)		
Current period	(0.4)	-
Adjustment in respect of prior years	-	(0.4)
Effect of changes in tax rates	-	(0.2)
	<u>(0.4)</u>	<u>(0.6)</u>
Tax credit for the period	<u>(0.6)</u>	<u>-</u>

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK of 19% (2020: 19%).

A reconciliation from the credit implied by the standard rate to the actual tax credit is as follows:

	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Loss on ordinary activities before tax	<u>(21.5)</u>	<u>(4.7)</u>
Tax credit based on the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	<u>(4.1)</u>	<u>(0.9)</u>
<i>Effects of:</i>		
Disallowable expenses	4.0	0.9
Transfer pricing adjustments	-	0.1
Adjustment in respect of prior years	(0.1)	0.1
Tax rate changes	(0.4)	(0.2)
Tax credit for the period	<u>(0.6)</u>	<u>-</u>

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. The previously enacted corporation tax reduction to 17% on 1 April 2020 was cancelled in the Budget of 11 March 2020, and a resolution effecting this passed by Parliament on 17 March 2020. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The change to the tax rate has no impact on the amount disclosed in the financial statements.

Notes to the financial statements

Section 3: Assets and liabilities

3.1 Investments in controlled entities and associates

	2021	2020
	£m	£m
Investments in controlled entities and associates	17.0	28.8

Direct holdings	Nature of business	Class of share held	Proportion held	Country of incorporation
Virgin Money Limited ⁽¹⁾	Banking - non trading	Ordinary	100%	England
Virgin Money Personal Financial Service Limited	Insurance intermediary	Ordinary	100%	England
Virgin Money Management Services Limited	Group services company	Ordinary	100%	England
Virgin Money Giving Limited	Charitable donations	Ordinary	100%	England

⁽¹⁾ Formerly Virgin Money PLC

Until 20 May 2021, the Company was the sole member of The Virgin Money Foundation, a charitable foundation registered in England as a company limited by guarantee. The Company acted as a guarantor for £1. On 20 May 2021, the membership was transferred to the Company's immediate parent company, Clydesdale Bank PLC.

All subsidiaries have a financial year end of 30 September. The registered address for all of the above controlled entities is Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Impairment of investment in Virgin Money Personal Financial Services Limited ('VMPFS')

An impairment test on the carrying value of the Company's investment in Virgin Money Personal Financial Services Limited has been undertaken. The recoverable amount of £4.8m as determined by a value-in-use (VIU) calculation was lower than the carrying value of £16.6m, resulting in an impairment charge of £11.8m at 30 September 2021.

Key assumptions used in value-in-use calculation

The VIU calculation uses discounted cash flow projections for VMPFS which are included in the Group's Board approved five-year Strategic and Financial Plan, with a terminal growth rate applied beyond the five-year projected cash flows.

The following assumptions are used in the VIU calculation:

- Discount rate: 14.1%
- Projected terminal growth rate: 2%

The five-year forecast projections use a range of business assumptions specific to the Company such as product volumes and margins which are commercially sensitive.

Discount rate

The discount rate applied reflects the pre-tax cost of equity for the Group.

Growth rate

The growth rate is based on management's expectation of the long-term average growth prospects for UK GDP after taking into account the broader historic UK economic outlook and trends.

Sensitivity to changes in assumptions

Changes in the discount rate or projected terminal growth rate will impact the Company's assessment of the value in use of VMPFS. If adjusted independently of all other variables, a 100 basis point increase in the discount rate would increase the impairment charge by £0.4m and a 100 basis point decrease in the projected terminal growth rate would increase the impairment charge by £0.3m.

Notes to the financial statements

Section 3: Assets and liabilities

3.1 Investments in controlled entities and associates (continued)

Investment in joint ventures and indirect holdings

	2021 £m	2020 £m
Investments in joint ventures and indirect holdings	-	10.8

Investment in Virgin Money Unit Trust Managers Limited

Until 10 December 2020, the Company had a joint venture with AAM, where the Company owned 50% plus one share in Virgin Money Unit Trust Managers Limited. The investments and pensions joint venture with AAM was accounted for at cost less any impairment and the investment was recognised within investments in joint ventures and was shown separately on the balance sheet. The registered office address is Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE3 4PL. Virgin Money Unit Trust Managers Limited has a year end of 31 December.

In June 2020, Virgin Money UK PLC committed to provide additional funding of up to £12.5m over 12 months to support the strategic and customer proposition development of Virgin Money Unit Trust Managers Limited via a mix of equity and debt finance, and the joint venture partner also committed to provide additional funding of up to £12.5m over the same timeframe. As part of this commitment, the Company acquired ordinary shares issued by Virgin Money Unit Trust Managers Limited totalling £3.75m in October 2020 (2020: £1.6m in July 2020).

On 10 December 2020 the Company sold its interest in Virgin Money Unit Trust Managers Limited to Clydesdale Bank PLC, the Company's immediate parent, as part of a wider project to streamline the Virgin Money Group. A consideration of £5.2m was received resulting in a loss on disposal of £9.4m being recognised (note 2.1).

3.2 Deferred tax assets

Movement in deferred tax asset

	2021 £m	2020 £m
Opening deferred tax asset	2.0	1.4
Deferred tax credit (note 2.3)	0.4	0.2
Adjustment in respect of prior periods (note 2.3)	-	0.4
Closing deferred tax asset	2.4	2.0

The Company has recognised deferred tax in relation to the following items:

	2021 £m	2020 £m
Tax losses carried forward	2.4	2.0
Total deferred tax asset	2.4	2.0

At 30 September 2021, the Company had an unrecognised deferred tax asset of £1.1m (2020: £0.9m) representing tax losses with a gross value of £4.7m (2020: £4.7m). The tax losses are only available to carry forward against future profits of the Company. Although there is no prescribed period after which losses expire, a deferred tax asset has not been recognised in respect of these losses as the Directors have insufficient certainty over their recoverability in the foreseeable future.

Notes to the financial statements

Section 3: Assets and liabilities

3.3 Fair value of financial instruments

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for an identical financial asset or liability;
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting period in which they occur.

(a) Fair value of financial instruments recognised on the balance sheet at amortised cost

The table below shows a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values.

There are various limitations inherent in this fair value disclosure particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as loans and advances.

	2021					2020				
	Fair value measurement using:					Fair value measurement using:				
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value	Level 1	Level 2	Level 3
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets										
Due from related entities	0.1	0.1	-	0.1	-	0.4	0.4	-	0.4	-
Financial liabilities										
Due to related entities	0.4	0.4	-	0.4	-	0.8	0.8	-	0.8	-

Cash and cash equivalents is no longer disclosed within the above table as cash and cash equivalents is inherently held at a carrying value equal to its fair value.

The fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

- *Due from related entities/due to related entities* – Fair value is deemed to approximate the carrying value.

(b) Fair value of financial instruments recognised on the balance sheet at fair value

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using the fair value hierarchy described above.

	Fair value measurement at 2021				Fair value measurement at 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets								
Financial instruments at FVOCI	0.2	-	-	0.2	0.1	-	-	0.1
Total financial assets measured at fair value	0.2	-	-	0.2	0.1	-	-	0.1

Notes to the financial statements

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

	2021 £m	2020 £m
Share capital	480.1	480.1
Share premium	655.8	655.8
Share capital and share premium	1,135.9	1,135.9

Allotted, called up and fully paid share capital

	2021 Number of shares	2020 Number of shares	2021 £	2020 £
Ordinary shares of £0.0001 each				
At 1 October / 1 January	4,800,448,175,311	4,800,447,313,484	480,044,817	480,044,731
Issued during the period	862,395	861,827	87	86
At 30 September	<u>4,800,449,037,706</u>	<u>4,800,448,175,311</u>	<u>480,044,904</u>	<u>480,044,817</u>
Deferred shares of £0.001 each				
Opening and closing deferred shares	<u>10,052,161</u>	<u>10,052,161</u>	<u>10,052</u>	<u>10,052</u>

As permitted by the Companies Act 2006, the Company's Articles of Association do not contain any references to authorised share capital.

Ordinary shares totalling £87 (2020: £86) were issued to the Virgin Money Employee Benefit Trust throughout the year in order to satisfy share awards made to employees as they fall due.

No dividends have been paid or declared in the current year or prior period.

The following describes the rights attaching to each share class at 30 September 2021:

(a) Ordinary shares

The holders of ordinary shares are entitled to one vote per share at meetings of the Company. All ordinary shares in issue rank equally and carry the same voting rights and the same rights to receive dividends and other distributions declared or paid by the Company. The shares represented 100% of the total share capital at 30 September 2021 (2020: 100%).

There are no restrictions on the transfer of ordinary shares in the Company at 30 September 2021.

(b) Deferred shares

As set out in the Articles of Association (and pursuant to the provisions of the Companies Act in respect of shares held in own shares), the deferred shares have no voting or dividend rights and, on a return of capital on a winding up, have no valuable economic rights.

The deferred shares are held in treasury. This is to ensure that the aggregate nominal value of the Company's share capital will be not less than £50,000, which is the minimum level of nominal share capital required by the Companies Act for a company to be established as a public limited company. The shares represented less than 0.0% of the total share capital at 30 September 2021 (2020: 0.0%).

A description of the other equity reserves category included within the statement of changes in equity, and significant movements during the year, is provided below:

4.1.2 Fair value through other comprehensive income reserve

The reserve records the unrealised gains and losses arising from changes in the fair value of financial instruments at fair value through other comprehensive income. The movements in this reserve are detailed in the Statement of comprehensive income.

Notes to the financial statements

Section 5: Other notes

5.1 Notes to the statement of cash flows

	12 months to 30 Sep 2021 £m	9 months to 30 Sep 2020 £m
Non-cash or non-operating items included in loss before tax		
Loss on sale of interest in Virgin Money Unit Trust Managers Limited	9.4	-
Impairment losses on investments in controlled entities	11.8	4.5
Other non-cash items	0.1	(0.1)
	<u>21.3</u>	<u>4.4</u>
Changes in operating assets		
Net decrease/(increase) in:		
Due from related entities	0.3	(0.2)
	<u>0.3</u>	<u>(0.2)</u>
Changes in operating liabilities		
Net (decrease)/increase in:		
Due to related entities	(0.4)	0.4
	<u>(0.4)</u>	<u>0.4</u>

For the purposes of the Statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	2021 £m	2020 £m
Cash at bank	<u>5.6</u>	<u>4.7</u>

5.2 Related party transactions

During the period there have been transactions between the Company, controlled entities of the Company, and other related parties.

	2021 £m	2020 £m
Amounts due from related entities		
<i>Other assets</i>		
Loans and other receivables due from controlled entities	0.1	0.4
Group relief due from controlled entities	0.1	0.2
	<u>0.2</u>	<u>0.6</u>
<i>Financial assets at fair value through other comprehensive income</i>		
Equity investment in ultimate parent company	0.2	0.1
Total amounts due from related entities	<u>0.4</u>	<u>0.7</u>

Amounts due to related entities

Other payables due to Clydesdale Bank PLC	0.4	0.8
<i>Current tax liabilities</i>		
Group relief due to Clydesdale Bank PLC	-	0.1
Total amounts due to related entities	<u>0.4</u>	<u>0.9</u>

Transactions with related entities

	2021 £m	2020 £m
<i>Non-interest income received</i>		
Costs recharged to controlled entities	2.9	2.7
Virgin Money Giving platform fee cover received from Clydesdale Bank PLC	-	0.4
	<u>2.9</u>	<u>3.1</u>
<i>Administrative expenses</i>		
Virgin Money Giving platform fee cover paid to Virgin Money Giving	-	(0.4)
Costs recharged from Clydesdale Bank PLC	(3.2)	(2.9)
	<u>(3.2)</u>	<u>(3.3)</u>
<i>Tax expense</i>		
Group relief receivable from/(payable to) Clydesdale Bank PLC	0.1	(0.1)
	<u>0.1</u>	<u>(0.1)</u>

Other related party activity

The Company has no employees (2020: Nil).