Annual Report and Financial Statements

Yorkshire Bank Home Loans Limited

For the year ended 30 September 2020

Company number: 01855020

Yorkshire Bank Home Loans Limited

Annual Report and Financial Statements

For the year ended 30 September 2020

Contents

Yorkshire Bank Home Loans Limited

Directors and Professional Advisers

For the year ended 30 September 2020

Directors	Hugh Chater Mark Thundercliffe
Company secretary	Lorna McMillan
Registered office	20 Merion Way Leeds LS2 8NZ
Auditor	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX

Strategic Report

The Directors of Yorkshire Bank Home Loans Limited ("the Company") present their Strategic Report for the year ended 30 September 2020.

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

Business structure

The Company is incorporated in the United Kingdom ("UK") under the Companies Act 2006 and registered in England and Wales. 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 undertaking, and controlling entity is Virgin Money UK PLC ("VMUK"). VMUK and its subsidiary undertakings comprise the Virgin Money UK PLC Group ("Group").

Principal activities

The Company provides mortgages and related services under the brand name "Yorkshire Bank". These are delivered through a network of retail branches across the Company's regional markets (North East England, North West England, Yorkshire and the Humber).

The Company's overall strategic objective is aligned to the Group, which 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.

No significant changes to the Company's operations occurred in the current year and no such changes are presently expected in the foreseeable future.

The COVID-19 pandemic has seen a significant disruption to the mortgage market, although Government support and payment holidays have mitigated the initial impacts of the pandemic upon customer arrears and asset quality. During the year, the Company offered payment holidays to its customers and continues to actively support them through COVID-19.

Financial analysis

The Statement of Comprehensive Income for the year is set out on page 15. The Company made a profit before tax of £9.9m in the current year, compared to a profit before tax of £16.2m for the year ended 30 September 2019.

The Company's net interest income reduced by £3.0m (16.2%) to £15.2m, when compared with the year ended 30 September 2019. The reduction in net interest income is due to a reduction in average loans and advances to customers balances year on year. Contributing to the reduction in average loans was the sale of mortgages totalling £251.6m to CB PLC in January 2020.

Other operating expenses have increased by £3.2m (133.4%) in the year ended 30 September 2020, primarily due to an increase in the loan impairment of £3.0m driven by a change to the weighted economic scenarios and post model adjustments applied by the Group as a result of COVID-19.

Strategic Report (continued)

The Company's Balance Sheet for the year is set out on page 16. The Company's total assets decreased by £164.8m (15.5%) and liabilities decreased by £172.8m (16.6%) as at 30 September 2020 when compared to total assets and liabilities at 30 September 2019. The decrease in total assets is driven by a £164.8m decrease in loans and advances to customers in the current year resulting from the sale of mortgages to CB PLC. The decrease in total liabilities was driven by a £170.6m decrease in the overdraft with CB PLC, which reflects the Company's decreased funding requirements for mortgage loans.

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 VMUK. 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.

Principal risks and mitigating actions

The Company's principal risks could result in events or circumstances that might threaten the Company's business model, future performance, solvency, liquidity and reputation. The principal risk categories remain similar to those outlined in the Annual Report and Accounts 2019, with changes relating to: the identification of model risk as a principal risk and; the recognition of climate risk as a cross-cutting risk which manifests through the existing principal risk framework. Further information can be found below:

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contracted obligations to the Company in accordance with the terms agreed. Credit risk manifests at both a portfolio and transactional level.	• Ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. • The Company applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. • Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. • Stress test scenarios are regularly prepared with the outcomes reviewed and relevant actions taken. Outcomes will typically include impairment charges, RWAs and write-offs.	**Impact:** • Although the impacts to the Company's mortgage portfolio are yet to fully manifest, it is clear that credit risk continues to be heightened, with levels of default, provisions and impairment all expected to increase over time, particularly once government support schemes come to an end. **Actions:** • The Company has participated in all regulatory and government support schemes and has placed a priority focus on supporting its existing customers through COVID-19. Capital repayment holidays continue to be provided and monitored. • Policies, risk appetite, credit decisioning and supporting frameworks have been rebased and reviewed and updated to reflect the changing environment and risk profiles.

Strategic Report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Financial risk includes funding risk, liquidity risk, market risk, pension risk, capital, and non-traded equity risk, all of which have the ability to impact the financial performance of the Company if not managed properly.	• Funding and liquidity risk is managed in accordance with Board approved standards, including the annual ILAAP and strategic and contingency funding plans. • The Group completes an annual ICAAP which formally assess the impact of severe, yet plausible, stress events to ensure that appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions.	Impacts: • The impacts of loan repayment moratoria across the mortgage portfolio has affected capital, liquidity and funding forecasting. Actions: • Additional monitoring and controls over capital, funding and liquidity risks resulting from COVID-19 have been put in place. The Group has early visibility of movements in RWA or potential impacts to capital from higher credit losses and stands ready to take a range of management actions.
Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	• The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. • The model risk policy standard defines roles and responsibilities in terms of model risk management. • A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.	Impacts: • The uncertain economic environment has affected all model components including input data, default markers, outputs, model accuracy and performance. • The rapid application of COVID-19 model adjustments has increased the risk that particular implementations contain errors or unexpected outcomes. Actions: • Model Risk Oversight remain actively engaged with model owners, carrying out pre-emptive model assessments to recognise and address key model risks and help to validate COVID-19 driven adjustments or recalibrations. Further oversight is provided by the Model Governance Committee.
Regulatory and compliance risk is the risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests, not meeting regulatory deadlines or obstructing the regulator.	• Clearly defined regulatory and compliance policy statements and standards are in place, supporting both regulatory and customer expectations. • There is ongoing proactive and coordinated engagement with key regulators. • Formal monitoring of compliance is managed through focussed oversight, regular reporting to the Board Risk Committee and ongoing dialogue with regulators.	Impacts: • The Group has deployed multiple new policies and processes to implement government, regulatory and central bank COVID-19 support measures. • Additional regulatory and compliance risks are associated with adherence to both COVID-19 specific regulatory guidance and with existing regulation. Actions: • Additional risk assessments, governance processes and assurance activities have been deployed across the Group to ensure compliance with existing regulation and COVID-19 specific regulatory guidance.

Strategic Report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Conduct risk is the risk of undertaking business in a way which is contrary to the interests of our customers, resulting in the delivery of inappropriate customer outcomes or experiences, customer detriment, regulatory censure, redress costs and/or reputational damage.	• The Group has an overarching conduct risk framework, with clearly defined policy statements and standards. • There is ongoing reporting and development of conduct risk appetite measures to the Executive Risk Committee and the Board. • Continual assessment of evolving conduct regulations, customer expectations, and product and proposition development. • A risk-based assurance framework is in place which monitors compliance with regulation and assesses customer outcomes.	**Impacts:** • Decisions are being made at pace, in light of COVID-19, in order to protect and support customers and there is the potential of failing to achieve good customer outcomes in this environment and in the future as relief schemes come to an end. Furthermore, there is an increased risk of failure to recognise and appropriately manage financial difficulties or vulnerabilities. **Actions:** • Additional monitoring and controls are in place to mitigate conduct risks arising from the execution of new policies and processes deployed in response to COVID-19.
Operational risk is the risk of loss resulting from inadequate or failed internal processes or from external events.	• The Group has an established Operational Risk Framework to identify, manage and mitigate operational risks. • Internal and external loss events are categorised using Basel II risk categories to ensure consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required to prevent reoccurrence. • The Group undertakes regular, forward-looking scenario analysis to gain insight into the stresses the business could be subject to in the event of operational risk events materialising. • A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.	**Impacts:** • Increased remote working, the implementation of new processes and pressure on customer support areas arising from changing customer needs all have the potential to increase the Group's operational risk profile, which could lead to increased errors or delays and subsequent loss. **Actions:** • The Group has undertaken ongoing risk assessments for changes to processes and controls made in response to COVID-19, including remote working. Policy exceptions are tracked and additional controls implemented.

Strategic Report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Technology Risk is the risk of loss resulting from inadequate or failed information technology processes. It includes IT resilience, information security, data risk and payment risk.	• The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. • The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite. • The Board approved security strategy focuses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management. • Risks are managed numerous controls, aligned to the National Institute of Standards and Technology Framework. • IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end-to-end business recovery and contingency plans are maintained and tested.	Impacts: • There is an increased risk of cyber-attacks, due to phishing emails which use a COVID-19 theme and breaches could have legal, regulatory or privacy implications. • Reliance on the availability of digital banking and remote network access has increased as a result of COVID-19, with solutions implemented to address system constraints and safeguard our connections. Actions: • Additional fraud monitoring is in place and temporary process changes are being continually risk assessed. There continues to be enhanced focus on supplier service level agreements and contingency plans. • A significant amount of work has been undertaken to enable and improve home working conditions. System monitoring, incident management and escalation processes are in place with regular oversight performed.
Financial crime risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.	• The Group has an established and evolving financial crime framework providing transparency and structure against which to develop and maintain consistency of approach to identify, manage and mitigate financial crime risk. • The Group continues to monitor existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environment factors. • The Group operates a framework of risk-based systems and controls to minimise the extent to which its products and services can be used to commit or be subject to financial crime. Regular investments are made into the maintenance of these systems and ensure compliance. • Regular oversight of financial crime controls is undertaken to ensure they remain effective and in line with Board approved risk appetite.	Impacts: • New policies and processes implemented in response to government, regulatory and central bank relief measures introduce additional fraud and financial crime risks. Support measures have been deployed at speed and there has been an enforced relaxation of certain controls. There is a risk that criminals may take advantage of customer and organisational vulnerabilities created by COVID-19. Actions: • Additional risk assessment, governance processes and assurance has been deployed across the Group to ensure the ongoing balance between customer impacts and support and maintaining fraud loss within risk appetite.

Strategic report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	COVID-19 impacts and actions
Strategic and enterprise risk is the risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of integration and transformation activity	• Strategic and enterprise risk is addressed through the Board approved 5-year Strategic and Financial Plan, refreshed during the year to incorporate and address the impacts of COVID-19. • The Group considers strategic and enterprise risk as part of ongoing risk reporting and the management of identified strategic risks is allocated to members of the Group's Leadership Team by the CEO. • The Group continues to develop and embed its sustainability agenda in managing environmental/climate, social and governance related risks. • Regular oversight activity with workstreams focused solely on the execution risk of delivering integration, placing customers' interest at the centre of all aspects of change.	Impacts: • COVID-19 has increased the pace of change and unpredictability within the external environment, including in relation to economic conditions, regulation, and culture. There is a risk that the strategic and financial plan does not adequately reflect these changes, or that we respond ineffectively to the cultural and societal changes it has brought about. Actions: • The strategic and financial plan is being refreshed to respond to the COVID-19 impacts experienced as well as those predicted.
People risk is the risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.	• Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. The Group's cultural framework has a clearly defined Purpose, with Values and Behaviours that form the foundation of the performance management framework. • The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.	Impacts: • An increased risk of colleague illness and absence, in addition to longer-term wellbeing risks, such as mental health impacts, may arise from the tighter restrictions introduced to curb the spread of COVID-19. These factors could increase pressure and reduce skills availability in key areas. Actions: • The Group follows government advice with colleagues working from home where possible, and social distancing and additional cleaning measures in place to support key workers based in offices and branches. Vulnerable colleagues are being given additional support from our healthcare provider.

Operational Resilience

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

Climate risk

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

Strategic report (continued)

Top and emerging risks

The Group monitors the environment in which it operates to identify both top and emerging risks that may have an impact on its operations and strategy. The Group currently considers these to be:

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

Strategic report (continued)

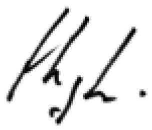
Top and emerging risks (continued)

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

Outlook

Over the next twelve months the Company will continue to support the Group, in delivering its targets and executing its strategy.

The Strategic report was approved by the Board of Directors on 15 December 2020 and was signed on its behalf by:



Hugh Chater

Director

15 December 2020

Directors' Report

The Directors present their Annual Report and audited Financial Statements of the Company for the year ended 30 September 2020.

Corporate governance

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

Profits and appropriations

The profit attributable to the shareholders for the year ended 30 September 2020 amounted to £8.0m (2019: £13.1m). The results of the Company are analysed further in the Strategic Report.

No dividends were declared or paid during the year ended 30 September 2020 (2019: £15.0m). The Directors do not recommend a final dividend for the year ended 30 September 2020.

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 17 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

Mark Thundercliffe was appointed as a Director of the Company on 14 October 2020.
Hugh Chater was appointed as a Director of the Company on 20 April 2020.

Resignations

Ian Smith resigned as a Director of the Company on 14 October 2020.
Peter Dockar resigned as a Director of the Company on 20 April 2020.
Nicholas Walford resigned as a Director of the Company on 20 April 2020.

Directors' interests

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

Directors' liabilities

During the year, Virgin Money UK 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 allocated as £4,000 (2019: £6,000) as part of the intercompany recharge.

Employees

The Company does not have any employees as it is serviced by the Virgin Money UK Group and its subsidiary undertakings.

Section 172 (1) Statement

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company, under section 172.

Directors' Report (continued)

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders. . In accordance with section 426B of the Companies Act 2006, this statement is also available at https://www.virginmoneyukplc.com/investor-relations/.

The Company is a subsidiary of Virgin Money UK PLC (VMUK), and as such follows many of the processes and practices of this company, which can be found in the VMUK Annual Report and Accounts, a copy of which can be found online at VMUK's website: www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports.

The Board is responsible for leading stakeholder engagement, ensuring that the Company fulfils its obligations to those impacted by the business. Any decisions made by the Board are considered for their impact on stakeholders and the impact on the Company's success in the long term. The Board has considered key stakeholders in terms of section 172 as follows:.

The Company has no employee's and management of customers, Government and regulators, investors, society and environmental stakeholders is managed by the VMUK Board. As a result, the matters set out in section 172(1) regarding stakeholder engagement with employees, suppliers, customers and communities is not relevant to the Company.

Political donations

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

Significant contracts

Details of related party transactions are set out in note 15 to the financial statements.

Share capital

Information about share capital is shown in note 11 to the financial statements.

Going concern

The Company's 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the audited 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 period. 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 in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

Directors' Report (continued)

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

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 15 December 2020 and was signed on its behalf by:

Hugh Chater

Director

15 December 2020

Independent Auditor's Report to the Members of Yorkshire Bank Home Loans Limited

Opinion

We have audited the financial statements of Yorkshire Bank Home Loans Limited for the year ended 30 September 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows, and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Yorkshire Bank Home Loans Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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

Statement of Comprehensive Income

For the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Interest income and similar income		27,731	36,903
Interest expense and similar charges		(12,482)	(18,703)
Net Interest Income		15,249	18,200
Fee and Commission income		278	398
Other operating expenses	4	(5,667)	(2,428)
Profit on ordinary acivities before tax		9,860	16,170
Tax Charge	5	(1,864)	(3,071)
Profit for the year attributable to equity holders		7,996	13,099
Total Comprehensive income for the year attributable to equity holders		7,996	13,099

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

All material items dealt with in arriving at the profit before tax for 2020 and 2019 relate to continuing operations.

The notes on pages 19 to 38 form an integral part of these financial statements.

Balance Sheet

As at 30 September 2020

	Note	2020 £'000	2019 £'000
Assets			
Loans and advances to customers	6	900,834	1,065,644
Deferred tax asset	7	84	85
Total Assets		900,918	1,065,729
Liabilities			
Overdraft due to related party	8	868,969	1,039,571
Trade and other payables	9	1,629	2,838
Other liabilities	10	486	1,482
Total Liabilities		871,084	1,043,891
Shareholders' Equity			
Share Capital	11	-	-
Retained earnings		29,834	21,838
Total Shareholders' equity		29,834	21,838
Total Liabilities and Equity		900,918	1,065,729

The notes on pages 19 to 38 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 December 2020 and were signed on its behalf by:

Hugh Chater

Director

15 December 2020

Company No: 01855020

Statement of Changes in Shareholders' Equity

For the year ended 30 September 2020

	Notes	Share Capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 October 2018		-	23,739	23,739
Total comprehensive income for the year		-	13,099	13,099
Dividends paid	12	-	(15,000)	(15,000)
Balance at 30 September 2019		-	21,838	21,838
Balance at 1 October 2019		-	21,838	21,838
Total comprehensive income for the year		-	**7,996**	**7,996**
Dividends paid	12	-	-	-
Balance at 30 September 2020		-	**29,834**	**29,834**

The notes on pages 19 to 38 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Profit on ordinary activities before tax		**9,860**	16,170
Adjustments for non-cash movements:			
Non-cash movements included in profit before tax		**(15,249)**	(18,201)
Changes in operating assets	13	**165,114**	14,058
Changes in operating liabilities	13	**(996)**	(217)
Interest received		**27,427**	36,935
Group relief paid		**(3,072)**	(2,069)
Tax paid		**-**	(224)
Net cash provided by operating activities		**183,084**	46,452
Net cash provided by investing activities		**-**	-
Financing Activities			
Interest paid		**(12,482)**	(18,703)
Dividends paid		**-**	(15,000)
Net cash used in financing activities		**(12,482)**	(33,703)
Net increase/(decrease) in cash and cash equivalents		**170,602**	12,749
Cash and cash equivalents at beginning of year		**(1,039,571)**	(1,052,320)
Cash and cash equivalents at end of year	8	**(868,969)**	(1,039,571)

The notes on pages 19 to 38 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 30 September 2020

1. Basis of preparation

Reporting entity

The Company is incorporated in the UK and registered in England and Wales.

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 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 of the Company are consolidated is that headed by CB PLC. VMUK and its subsidiary undertakings comprise the Virgin Money UK PLC Group ("the Group"), 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 the registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Statement of compliance

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

The financial statements for the year ended 30 September 2020 were authorised for issue by the Board of Directors on 15 December 2020.

Basis of measurement

The financial information has been prepared under the historical cost convention. A summary of key accounting policies is 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 17 to the financial statements includes the Company's risk management objectives and note 18 to the financial statements includes the Company's objectives, policies and processes for managing its capital.

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

Notes to the Financial Statements (continued)

2. Accounting polices

New accounting standards and interpretations

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

- IFRS 16 'Leases' is effective for financial periods beginning on or after 1 January 2019 and replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease,' SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease.' IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will result in most leases for lessees being brought on to the balance sheet under a single lease model, removing the distinction between finance and operating leases. It requires a lessee to recognise a 'right-of-use' asset and a lease liability. Lessor accounting remains largely unchanged. The Company does not enter into lease agreements as lessee or lessor;
- IFRIC interpretation 23: 'Uncertainty over Income Tax Treatments', issued June 2017 and effective for financial years beginning on or after 1 January 2019. The new interpretation applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law and is not limited to actual ongoing disputes; and
- 'Annual Improvements to IFRS Standards 2015-2017 Cycle', issued December 2017 and effective for financial years beginning on or after 1 January 2019. The IASB has made amendments to the following standards: IFRS 3 'Business Combinations'; IFRS 11 'Joint arrangements'; IAS 12 'Income Taxes'; and IAS 32 'Borrowing Costs'.

New accounting standards and interpretations not yet adopted

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

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.

Interest income on financial assets in impairment Stages 1 and 2 is recognised on the unwind of the discount from the initial recognition of the expected credit loss (ECL) using the original effective rate of interest. Once a financial asset or group of similar financial assets has been categorised as credit-impaired (Stage 3), interest income is recognised on the net carrying value (after the ECL allowance) using the asset's original effective interest rate. The interest income for purchase or originated credit impaired financial assets is calculated using the credit-adjusted effective interest rate applied to the amortised cost of the financial asset from initial recognition.

Loan origination and commitment fees are recognised as revenue within the effective interest rate calculation. When the non-utilisation of a commitment fee occurs, this is taken as revenue upon expiry of the agreed commitment period. Loan related administration and service fees are recognised as revenue over the period of service.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as revenue over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Notes to the Financial Statements (continued)

2. Accounting polices (continued)

Fees and commissions

Fees and commissions not integral to the effective interest rate arising from services provided to customers and third parties are recognised once performance obligations have been satisfied.

Taxation

Income tax on the profit or loss for the year comprises current tax 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 or recoverable on the taxable profit or loss 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 released, 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 the future tax amounts will arise to utilise those temporary differences and losses.

Financial instruments

Recognition and derecognition of financial instruments

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 expires 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 from the balance sheet 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 statement of comprehensive income 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 loans and advances to customers balance.

Notes to the Financial Statements (continued)

2. Accounting polices (continued)

Loans and advances to customers

The loans and advances to customers held by the Company are mortgages and are accounted for including direct and incremental transaction costs, using the effective interest method, and adjusted for expected credit losses and unearned income. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

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.

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.

Financial liabilities

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

Notes to the Financial Statements (continued)

2. Accounting polices (continued)

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where no such active market exists for the particular asset or liability, the Company uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises profits or losses on the transaction date.

Other assets and other liabilities

Other assets and other liabilities consist of amounts in the course of clearing at the year end. The balances will be recorded as other assets or other liabilities dependent on the aggregate position.

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.

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.

3. Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements 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. Estimates which are based on future economic conditions, and sensitive to changes in those conditions, have been impacted by COVID-19. This estimation impact has primarily been in the measurement of ECL. Actual results may differ materially from these estimates. The most significant use of accounting estimates and judgements relate to the following areas:

Impairment provisions on credit exposures

The use of an ECL methodology under IFRS 9 requires the Group to apply estimates and exercise judgement when calculating an impairment allowance for credit exposures. The most significant of these relate to the use of economic scenarios and weightings, the judgement required in determining a significant increase in credit risk, and post model adjustments.

These are not calculated at an individual entity level within the Group. Further detail on the effect and impact of these can be found in the Virgin Money UK PLC Annual Report and Accounts for the year ended 30 September 2020.

Notes to the Financial Statements (continued)

3. **Critical accounting estimates and judgements (continued)**

Effective Interest Rate (EIR)

The EIR is determined at initial recognition based upon management's best estimate of the future cash flows of the financial instrument. In the event these estimates are revised at a later date, a present value adjustment of the carrying value of the EIR asset may be recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the EIR method introduces a source of estimation uncertainty. Management considers that material risk of adjustments exists in relation to the application of EIR to the Group's mortgage portfolios.

The main accounting judgement when assessing the cash flows within the Group's secured lending EIR model is the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR period) and the early repayment charge income receivable. The Group currently assumes 84% of customers will have fully repaid or re-mortgaged within two months of reverting to SVR. If this were to increase to 89%, the Company's loans and advances balance would reduce by £0.2m within the adjustment recognised in net interest income.

4. **Other operating expenses**

	2020	2019
	£'000	£'000
Loan impairment charge / (credit) (note 14)	**2,518**	(491)
Related entity recharges for administrative expenses	**3,141**	2,919
Other operating expenses	**8**	-
	5,667	2,428

Included within related entity recharges for administration expenses, are audit fees of £9,250 in relation to the current year (2019: £8,970).

Notes to the Financial Statements (continued)

5. Taxation

	2020	2019
	£'000	£'000
Current tax		
UK Corporation tax at 19% (2019 : 19%)		
Current year	1,863	3,062
Adjustment in respect of prior years	-	-
	1,863	3,062
Deferred tax		
Current year	1	9
Tax charge reported in Income Statement	1,864	3,071

	2020	2019
	£'000	£'000
Profit on ordinary activities before tax	9,860	16,170
Tax charge based on standard rate of Corporation Tax in the UK of 19% (2019 : 19%)	1,873	3,071
Effects of:		
Change in tax rate	(9)	-
Actual tax charge for the year	1,864	3,071

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. This new rate is used to measure the values at which assets are expected to be realised and liabilities settled.

The recognised deferred tax asset is based on the tax rate in force at 30 September 2020 of 19%.

Notes to the Financial Statements (continued)

6. Loans and advances to customers

	2020 £'000	2019 £'000
Gross loans and advances to customers	906,395	1,068,755
Provision for expected credit losses (note 14)	(5,561)	(3,111)
	900,834	1,065,644

Remaining maturity of total loans and advances	2020 £'000	2019 £'000
Current loans and advances to customers		
1 year or less	11,713	26,716
Non-current loans and advances to customers		
Between 1 and 5 years	41,676	102,996
Over 5 years	847,445	935,932
	889,121	1,038,928
Total loans and advances to customers	900,834	1,065,644

Maximum exposure to credit risk

The maximum exposure to credit risk is disclosed in note 17.

Credit quality of loans and advances

The loan-to-value ("LTV") ratio of retail mortgage lending coupled with the relationship of the debt to customers' income is key to the credit quality of these loans. The table below sets out the indexed loan-to-value analysis of the Company's retail mortgages:

	2020 %	2019 %
LTV [(1)]		
Less than 50%	32	29
50% to 75%	40	38
76% to 80%	9	9
81% to 85%	8	9
86% to 90%	7	10
91% to 95%	3	4
96% to 100%	-	-
Greater than 100%	1	1
Unknown	-	-
	100	100

(1) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the MIAC Acadametrics indices at a given date. Unknown represents loans where data is not currently available due to front book data matching still to be completed and a de minimis amount due to weaknesses in historic data capture processes.

Notes to the Financial Statements (continued)

7. Deferred Tax Asset

	2020 £'000	2019 £'000
Deferred Tax Asset:		
Opening balance	**85**	-
IFRS 9 adjustment recognised in equity	**-**	94
Recognised in income statement	**(1)**	(9)
Closing balance	**84**	85

8. Overdraft due to related party

	2020 £'000	2019 £'000
Overdrafts	**868,969**	1,039,571

The Company holds an overdraft facility with its parent, CB PLC, the Company's funding provider.

9. Trade and other payables

	2020 £'000	2019 £'000
Group relief payable	**1,629**	2,838

10. Other liabilities

	2020 £'000	2019 £'000
Settlement clearing	**486**	1,482

11. Share capital

	Number	£
Alloted, called up and fully paid:		
Ordinary shares of £1 each		
At 30 September 2020 and 2019	**100**	**100**

Notes to the Financial Statements (continued)

12. Dividends paid

	2020	2019
	£'000	£'000
Total dividends paid	-	15,000
Dividend per share	-	150

13. Notes to the statement of cash flows

	2020	2019
	£'000	£'000
Changes in operating assets		
Net decrease in:		
Loans and advances to customers	165,114	14,058
	165,114	14,058
Changes in operating liabilities		
Net decrease in:		
Other creditors and accruals	-	(50)
Other liabilities	(996)	(167)
	(996)	(217)

14. Provision for expected credit losses

	Stage 1		Stage 2		Stage 3			
	Gross Loans £000s	ECL £000s	Gross Loans £000s	ECL £000s	Gross Loans £000s	ECL £000s	Total Gross Loans £000s	Total Provision £000s
Opening balance at 1 October 2019	982,744	204	57,067	388	28,944	2,519	1,068,755	3,111
Loan originations	230,178	83	1,573	24	486	7	232,237	114
Sale of loans to CB PLC	(240,967)	(67)	(9,910)	(44)	(688)	(8)	(251,565)	(119)
Transfers between stages, repayments and other re-measurements	(259,428)	411	116,486	2,062	(90)	(18)	(143,032)	2,455
Closing balance at 30 September 2020	**712,527**	**631**	**165,216**	**2,430**	**28,652**	**2,500**	**906,395**	**5,561**
Opening balance at 1 October 2018	1,000,808	175	52,037	280	30,584	3,242	1,083,429	3,697
Movement in period	(18,064)	29	5,030	108	(1,640)	(723)	(14,674)	(586)
Closing balance at 30 September 2019	982,744	204	57,067	388	28,944	2,519	1,068,755	3,111

Coverage ratios -

	Stage 1	Stage 2	Stage 3	Total
At 30 September 2020	0.09%	1.47%	8.72%	0.61%
At 30 September 2019	0.02%	0.68%	8.70%	0.29%

Notes to the Financial Statements (continued)

15. Related party transactions

The Company receives a range of services from its parent and related parties, including funding and various administrative services. At 30 September 2020, there was a group relief balance of £1,628,958 (2019: £2,838,096) to be settled with Group companies in due course. Other transactions with related parties are disclosed below:

	2020	2019
	£'000	£'000
Transactions during the year		
CB PLC		
Sale of loans and advances to customers	**251,565**	469,593
Interest paid	**12,482**	18,703
Related entity recharges for various administrative expenses	**3,141**	2,919
Balances at year end		
CB PLC		
Overdraft due to related party	**868,969**	1,039,571

Transactions with Directors, key management and their close family members

There were no amounts outstanding at 30 September 2020 (2019: £Nil) for transactions, arrangements between the Company and its Directors, key management and their close family members during the year.

Compensation of key management personnel

All compensation received by key management personnel relates to their duties on behalf of other Group companies. Thus, no disclosure is presented in these financial statements.

Directors' emoluments

The Directors are employed as executives of other Virgin Money UK PLC Group companies and do not receive incremental remuneration in respect of their duties as Directors of the Company. The Directors believe it would be appropriate to apportion £4,000 (2019: £6,000) of their remuneration as being in respect of their duties to the Company. These costs were recharged to the Company from CB PLC.

Notes to the Financial Statements (continued)

16. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the 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 purposes of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting period in which they occur.

Fair value of financial instruments held at amortised cost

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 to customers.

The tables below show a comparison of the carrying amounts, as reported on the Balance Sheet, and fair values of those financial assets and liabilities where the carrying values are not approximately equal to their fair value.

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets	£'000	£'000	£'000	£'000
Loans and advances to customers	900,834	900,680	1,065,644	1,075,646

Loans and advances to customers are categorised as Level 3 in the fair value hierarcy.

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

Loans and advances to customers - the fair value of loans and advances are determined by firstly segregating them into portfolios of similar characteristics. Contractual cashflows are then adjusted for expected credit losses and expectations of customer behaviour based on observed historic data. The cashflows are then discounted using current market rates for instruments of similar terms and maturity to arrive at an estimate of their fair value.

There were no transfers between levels during the year (2019: none).

Notes to the Financial Statements (continued)

17. Management of risk

Risk management framework

Effective risk management is critical to realising the Group's strategy of pioneering growth, with delighted customers and colleagues, while operating with super straightforward efficiency, discipline and sustainability. The safety and soundness of the Group is aligned to its Purpose and is a fundamental requirement to enable customers and stakeholders to be "happier about money".

Risk Culture

Risk culture is focused on the Group's understanding of the risks it takes, which is key to enabling its strategy to disrupt the status quo.

Personal accountability is at the heart of the Group's risk culture. This is enabled through the risk management accountability model and formal delegation framework which support colleagues to make risk-based decisions. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they maintain and develop the required levels of competence. This supports colleagues in making risk-based decisions and judgements.

The Group is customer-centric and values open and honest feedback from its customers. This feedback allows colleagues to rectify problems, learn from them and consistently create products and services that meet customer needs in alignment with Purpose. The Board and senior management are responsible for setting and overseeing the Group's risk culture through their actions, words and oversight activities, and for ensuring any identified areas of weakness are addressed.

The Board Risk Committee continually assess risk culture and Internal Audit (IA) provides an independent view of risk culture to the Board Audit Committee through a risk and control-related management awareness assessment assigned to the majority of audits.

Risk strategy

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

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

Risk Appetite

'Risk Appetite' is defined as the level and types of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The Risk Appetite Statement (RAS) articulates the Group's risk appetite to stakeholders and provides a view on the risk-taking activities the Board is comfortable with, guiding decision-makers in their strategic and business decisions.

The Risk Appetite Framework (RAF) sets out the mandatory governance requirements for the creation, management and oversight of the RAS.

The RAS conveys the balance required between risk taking and the commercial and reputational implications of doing so, promoting good customer outcomes and protecting the Group from excessive exposure. The RAS includes qualitative and quantitative limits which inform strategies, targets, policies, procedures and other controls that collectively ensure the Group remains within the Board's approved appetite.

The Group's RAS is prepared by the Group Chief Risk Officer with consideration of the strategic objectives and business model, as well as the environment in which the Group operates. Reporting to Executive Committees and the Board includes details of performance against relevant RAS settings, breaches and trends.

Notes to the Financial Statements (continued)

17. Management of risk (continued)

Risk governance and oversight

The Group has a structured risk governance framework to support the Board of Directors' aim of achieving long-term and sustainable growth through the Group's Purpose of 'Making you Happier about Money'. This includes a number of committees with a specific risk management focus, although all committees consider risk matters in accordance with the Group's Risk Management Framework (RMF). The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Oversight of the risk governance structure is facilitated by the Board.

Three lines of defence

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

- risk management responsibilities are clearly understood and adhered to by all colleagues when carrying out their day-to day activities;
- decisions are made with proactive consideration of the potential risk and impact on customers;
- business areas must self-identify and report management issues, which are captured centrally, showing good levels of risk awareness, management remediation, and promoting a strong risk culture; and
- regular control assessments are undertaken to confirm the effectiveness of the control environment, based on control monitoring and testing, in relation to both the current and emerging risk profile.

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

Risk management framework

The Group identifies and manages risk in line with the RMF, which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk. The RMF aligns to Our Purpose by establishing an overarching framework for the identification, measurement, management and reporting of risk in a clear and transparent way.

Risk policies and procedures

The policy framework is a key component of the Group's RMF, providing structure and governance for the consistent and effective management of policies. In developing the policy framework, the Group sets the tone that demonstrates the risk culture expected across the organisation. This aligns with the behavioural expectations for all colleagues which form a core part of our performance management approach. Policy statements and supporting policy standards define the minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

Risk management and internal controls

The Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

17. Management of risk (continued)

Stress testing

Stress testing is an important and widely recognised risk management tool, used to assess the vulnerability of financial institutions and identify risks under adverse economic scenarios. The Group uses stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

The Group undertakes stress testing following the Basel Committee principles which utilise, where appropriate, scenarios provided by the Bank of England (BoE).

The Board and senior management are actively involved in the stress testing process, reviewing, challenging and approving all aspects of stress testing, from the consideration of scenarios to be tested, to the outcomes and mitigating actions. The involvement of the Board and senior management is considered essential for the effective operation of stress testing and the manner in which the results inform strategic planning and risk appetite. Reverse stress testing is also undertaken to assess the types of risks that would pose fundamental threats to the viability of the Group's business model.

Recognising its enlarged size following the integration of Virgin Money Holdings (UK) PLC, the Group will take part in its inaugural BoE's concurrent stress test from 2021. The Bank of England's 2020 Annual Cyclical Scenario (ACS) was cancelled as a result of COVID-19, to help lenders meet the needs of UK households and businesses via the continuing provision of credit.

Principal and emerging risk categories

In line with the UK Corporate Governance Code (the Code) requirements, the Board has performed a robust assessment of the Group's principal and emerging risks, including those that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation. In deciding on the classification of principal risks, the Board considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur. In assessing emerging risks, the Board considered what procedures are in place to identify emerging risks and how they are being managed or mitigated.

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

Credit risk

Credit risk is the potential that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and / or products that the Company offers (primarily residential mortgages). Credit risk can be found both on and off balance sheet.

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

The COVID-19 pandemic poses significant risks to the Company's credit portfolios however the Group remains focussed on supporting customers and colleagues through the exceptional challenges that have crystallised over the past few months. For certain types of lending the level of appetite has been extended to enable additional support to be provided to customers, while in other areas the Group has considered it prudent to temper appetite, in response to the heightened concern for the economy and the potential impact on customer indebtedness. The financial year 2021 RAS will continue to consider the impact of COVID-19 for the Group, remaining agile, focussed and responsive, to ensure the Group is addressing new and developing risks in a safe and efficient manner.

Customer assistance as a result of COVID-19

During the year, the Company offered payment holidays and continues to actively support customers through COVID-19, although the level of new requests has reduced significantly since the peak in April. The Group in addition to the wider industry also agreed to extend payment holidays for a further three months to those customers who evidenced a requirement for them in June 2020.

Notes to the Financial Statements (continued)

17. Management of risk (continued)

Maximum exposure to credit risk

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

	2020	2019
	£'000	£'000
Assets		
Loans and advances to customers	900,834	1,065,644
Total credit risk exposure	900,834	1,065,644

At 30 September 2020 there were £61.5m of undrawn commitments (2019: £97.4m).

Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Company's Balance Sheet according to the assets and liabilities contractual maturity:

At 30 September 2020

	At call £'000	3 months or less £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
Assets							
Loans and advances to customers	-	7,105	4,608	41,676	847,445	-	900,834
Liabilities							
Overdraft due to related party	868,969	-	-	-	-	-	868,969
Trade and other payables	-	-	1,629	-	-	-	1,629
Other liabilities	-	486	-	-	-	-	486
	868,969	486	1,629	-	-	-	871,084

At 30 September 2019

	At call £'000	3 months or less £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
Assets							
Loans and advances to customers	-	10,575	16,141	102,996	935,932	-	1,065,644
Liabilities							
Overdraft due to related party	1,039,571	-	-	-	-	-	1,039,571
Trade and other payables	-	-	2,838	-	-	-	2,838
Other liabilities	-	1,482	-	-	-	-	1,482
	1,039,571	1,482	2,838	-	-	-	1,043,891

Notes to the Financial Statements (continued)

17. **Management of risk (continued)**

Forbearance

Identification and classification

Forbearance is considered to take place when the Company grants concessions to assist customers who are experiencing, or who are about to experience, difficulties in meeting their financial commitments to the Company. The Company's forbearance policies and definitions comply with the guidance established by the European Banking Authority (EBA) for FINREP reporting. Forbearance concessions will include the granting of more favourable terms and conditions than those provided either at drawdown of the facility or which would not ordinarily be available to others with a similar risk profile. Forbearance parameters are regularly reviewed and refined as necessary to ensure they are consistent with the latest industry guidance and prevailing practice as well as ensuring that they adequately capture and reflect the most recent customer behaviours and market conditions. The Company makes every effort to treat customers fairly and aligns its forbearance practices to that principle.

While forbearance alone is not necessarily an indicator of impaired status, it is a trigger for the review of the customer's credit profile and is granted when there is a realistic prospect of the customer repaying all facilities in full. If there is any concern over future cash flows and the Company incurring a loss, then forborne loans will also be classified as impaired in accordance with the Company's impairment policy.

Exposures classified as forborne and performing at the date forbearance measures are granted, continue to be reported as subject to forbearance for a minimum period of two years from that date (the 'probation period'). Exposures classified as forborne and which are non-performing when customers were granted forbearance cannot exit non-performing status for a minimum of 12 months from the date forbearance was granted and cannot exit forbearance status for a further two years from the date of returning to performing status (three years in total). Forbearance activity is reviewed on a regular basis to ensure the operational processes remain appropriate and, where required, system changes are made to enhance forbearance data capture.

The Company has identified a number of situations that in isolation are not considered to be forbearance:

- Facilities that have been temporarily extended pending review and no concession has been granted for reasons relating to the actual or apparent financial stress of a customer.
- A reduction in asset quality to a level where actual, or apparent, financial stress is not evident.
- Where changes are made to the terms of a borrower's interest structure or repayment arrangement on a commercial basis.
- Late provision of financial information, in the absence of other indicators of financial difficulty, is not in all cases considered a 'non commercial' breach of non-financial covenants.

Where the Company has made a demand for repayment, the customer's facilities have been withdrawn or where a debt repayment process has been initiated, the exposure is classified as forborne if the debt is subject to any of the forbearance concessions above.

Customers who requested COVID-19 related support, including payment holidays; and who were not the subject of any wider SICR triggers or who were otherwise assessed as having the ability in the medium term to be viable and meet our risk appetite criteria, were not considered to have been granted forbearance.

Where the Company has identified customers for whom additional borrowing would require remedial action to return them to be within our risk appetite over the medium-term, or customers who were showing signs of financial stress before the COVID-19 crisis; such customers are considered to have been granted forbearance with exposures categorised as Stage 2 and subject to a lifetime ECL assessment.

The Company utilises various forbearance measures for mortgage customers, specific to the individual customer and their circumstances. Customers may potentially be subject to more than one forbearance strategy at any one time where this is considered to be the most appropriate course of action.

Notes to the Financial Statements (continued)

17. Management of risk (continued)

Debt management for mortgage customers in financial difficulty

To support customers who are encountering financial difficulties, cases are managed on an individual basis, with the circumstances of each customer considered separately and the action taken judged as being affordable and sustainable for the customer. Operationally, the provision and review of such assistance is controlled by various methods. These include the application of an appropriate policy framework, controls around the execution of policy, regular review of the different treatments to confirm that they remain appropriate, monitoring of customers' performance including the level of payments received, and management visibility of the nature and extent of assistance provided and the associated risk.

Help is provided through specialist teams such as the Financial Care Team where tailored repayment programmes can be agreed. Customers are actively supported and referred to free money advice agencies when they have multiple credit facilities, including those at other lenders that require restructuring.

One component of the Group's approach is to contact customers showing signs of financial difficulty to discuss their circumstances and offer solutions to prevent their accounts falling into arrears.

Retail forbearance - Mortgage lending

The tables below summarise the number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. The Company reports retail forbearance at the exposure level. Where a customer is subject to more than one forbearance measure, they have been categorised into the primary method of forbearance. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes:

2020

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £'000	% of total portfolio	Impairment allowance £'000	Coverage %
Formal arrangements	132	10,327	1.15%	393	3.81%
Temporary arrangements	78	6,210	0.69%	298	4.80%
Interest only conversion	23	3,643	0.40%	30	0.82%
Term extension	61	4,313	0.48%	47	1.09%
Legal	9	625	0.06%	17	2.72%
Other	41	2,781	0.31%	688	24.74%
	344	27,899	3.09%	1,473	

2019

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £'000	% of total portfolio	Impairment allowance £'000	Coverage %
Formal arrangements	147	11,426	1.07%	346	3.03%
Temporary arrangements	111	8,302	0.78%	281	3.39%
Interest only conversion	25	2,866	0.27%	15	0.54%
Term extension	74	6,104	0.57%	52	0.85%
Legal	16	1,124	0.11%	7	0.64%
Other	37	2,312	0.22%	108	4.65%
	410	32,134	3.02%	809	

Notes to the Financial Statements (continued)

17. Management of risk (continued)

The Company also has a number of customers with interest only mortgages past maturity, not subject to forbearance. The Company has formal processes embedded to pro-actively track and facilitate pre-maturity customer engagement to bring the cases to a formal conclusion which is generally aimed to be achieved within six months after the loan has reached maturity. Complex cases can take longer than this to reach conclusion. At 30 September 2020, the Company had 10 (2019: 6) customers with interest only mortgages not subject to forbearance and which were post six month maturity with a total value of £1.2m (2019: £1.0m).

When all other avenues of resolution including forbearance have been explored the Company will take steps to repossess and sell underlying collateral. In the year to 30 September 2020 there were 15 repossessions of which 7 were voluntary (2019: 21 including 6 voluntary).

Liquidity and funding 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.

CB PLC provides the Company with its funding requirements via an overdraft facility. This funding requirement is monitored by both CB PLC Treasury and Company management and, when required, additional funding is provided to meet the Company's lending volumes and financial obligations.

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

Cash flows payable under financial liabilities by contractual maturity:

2020	**At call £'000**	**3 months or less £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**Over 5 years £'000**	**No specific maturity £'000**	**Total £'000**
Liabilities							
Overdraft due to related party	**868,969**	-	-	-	-	-	**868,969**
Trade and other payables	-	-	**1,629**	-	-	-	**1,629**
Other liabilities	-	**486**	-	-	-	-	**486**
	868,969	**486**	**1,629**	-	-	-	**871,084**

2019	At call £'000	3 months or less £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
Liabilities							
Overdraft due to related party	1,039,571	-	-	-	-	-	1,039,571
Trade and other payables	-	-	2,838	-	-	-	2,838
Other liabilities	-	1,482	-	-	-	-	1,482
	1,039,571	1,482	2,838	-	-	-	1,043,891

Interest rate risk

Interest rate risk comprises the sensitivity of the Group's current and future net interest income to movements in market interest rates. The Company's major contributor to interest rate risk is the pricing of fixed rate mortgages.

Interest rate risk is principally managed at the Group level.

Notes to the Financial Statements (continued)

17. Management of risk (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people or systems or from external events. It is a core component of the RMF and is embedded in day to day business activities. Responsibilities are set out in a structured operational risk framework that seeks to identify, assess, mitigate and report the operational risks and events that could impact the achievement of business objectives or impact core business processes.

Business units are responsible for the day to day management of operational risk, with oversight from the risk management function and independent assurance activities undertaken by internal audit.

The requirements of the operational risk management framework are defined in an overarching operational risk policy and related minimum standards at a Group level, and reflect the Group's operational risk appetite.

The Group has identified, assessed and is currently monitoring all key operational risks, including undertaking an assessment of control effectiveness, monitoring trends in key risk indicators and escalating events, in accordance with policy requirements.

18. Capital management overview

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

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

The Company manages the following items as capital:

	2020	2019
	£'000	£'000
Share Capital	-	-
Retained Earnings	**29,834**	21,838
	29,834	21,838

19. Events after the balance sheet date

There were no events after the balance sheet date.