Annual report and financial statements

Yorkshire Bank Home Loans Limited

For the year ended 30 September 2023

Company number: 01855020

Yorkshire Bank Home Loans Limited

Annual report and financial statements

For the year ended 30 September 2023

Contents

Yorkshire Bank Home Loans Limited

Officers and professional advisers

For the year ended 30 September 2023

Directors	Clifford Abrahams Allegra Patrizi (appointed 8 November 2023) Hugh Chater (resigned 8 November 2023)
Secretary	Lorna McMillan
Registered office	20 Merrion Way Leeds LS2 8NZ
Independent auditors	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX

Yorkshire Bank Home Loans Limited

Strategic report

The Directors of Yorkshire Bank Home Loans Limited (the Company) present their Strategic report for the year ended 30 September 2023.

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.

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 (the Group).

Principal activities

The Company provides mortgages and related services to customers who hold products with Yorkshire Bank. Mortgages and related services are also currently provided to new customers through digital channels.

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.

Financial analysis

The statement of comprehensive income for the year is set out on page 11. The Company made a loss before tax of £5.8m in the current year, compared to a profit before tax of £12.1m for the year ended 30 September 2022.

The Company's net interest income decreased by £17.4m to an expense of £5.1m, when compared with the year ended 30 September 2022. The decrease is as a result of a higher intra group funding costs in the current period and a reduction in average loans and advances to customers year on year. Contributing to the reduction in average loans was the sale of mortgages to CB PLC. Going forward, funding costs are to be more closely aligned with interest income which is expected to result in the Company returning to profitability.

Other operating expenses increased by £0.4m in the year ended 30 September 2023, primarily driven by a higher release of impairment provisions in the prior year following changes to the weighted economic scenarios and post model adjustments applied by the Group. Related entity recharges for administrative expenses reduced by £0.4m in the current period due to the reducing mortgage portfolio and cost efficiencies.

The Company's balance sheet for the year is set out on page 12. The Company's total assets decreased by £158m and liabilities decreased by £143m as at 30 September 2023 when compared to total assets and liabilities at 30 September 2022. The decrease in total assets is driven by redemptions and the sale of mortgages to CB PLC, partly offset by new loan completions. The decrease in total liabilities was driven by a £138m 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 Group's Annual Report and Accounts. 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.

Strategic report (continued)

Principal risks and mitigating actions

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

- **Credit risk:** the potential that a counterparty will be unable to pay amounts in full when due. The Company relies on the Group's credit risk policies, procedures and mitigation strategies to manage credit risk. These are regularly reviewed and updated where necessary.
- **Market risk:** includes liquidity risk and interest rate risk. The primary objective for the management and oversight of market risk is to maintain the risk profile within approved risk appetite and limits, while implementing strategies that optimise stable current and future earnings from the impact of market volatility.
  - **Liquidity risk:** the risk that the Company is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, and the payment of dividends.
  - **Interest rate risk:** comprises the sensitivity of the Company's current and future net interest income and economic value to movements in market interest rates. Interest rate risk is principally managed at the Group level.
- **Compliance risk:** the risk that the Company fails to comply with its regulatory requirements with the potential that the Company:
  - treats customers unfairly, potentially exposing them to financial or other detriment;
  - is subject to legal or regulatory sanction;
  - suffers reputational damage; or
  - is used for the purposes of financial crime.

  The Group Risk function supports the Company to develop policies, deliver training and perform monitoring checks to ensure compliance with regulatory requirements.
- **Legal risk:** the risk of legal sanction, material financial loss or loss of reputation that the Company may suffer as a result of its failure to comply with the law, inadequately document its contractual arrangements or inadequately assess and implement changes required by forthcoming legislation or emerging case law. The Group Legal function supports the Company in meeting its contractual obligations and assessing legal developments.
- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. A range of indicators covering the Company's operations are reviewed by the Group Board regularly throughout the year. All key business processes are subject to periodic reviews by the Group's Risk and Internal Audit teams to ensure that appropriate controls are in place and operating effectively.
- **Economic crime risk:** the risk that products and services will be used to facilitate financial crime, resulting in harm to customers, the Company or third parties. The Company is supported by the Group's established financial crime and fraud risk framework, with clearly defined policy statements, standards and risk appetite measures reported to the Executive Risk Committee and the Board.

Strategic report (continued)

Outlook

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

The Strategic report was approved by the Board of Directors on 8 December 2023 and was signed on its behalf by:

Clifford Abrahams

Director

8 December 2023

Directors' report

The Directors present their report and financial statements of the Company for the year ended 30 September 2023.

Corporate governance

Details of the corporate governance framework applying to the Company, are set out in the Corporate governance report within the Group Annual Report and Accounts.

Profits and appropriations

The loss attributable to the shareholders for the year ended 30 September 2023 amounted to £4.6m (2022: £10.1m profit). The results of the Company are analysed further in the Strategic report.

A final dividend in respect of the previous financial year was paid during the year of £10.0m (2022: £30.0m) as recommended by the Directors. The Directors do not recommend a final dividend for the year ended 30 September 2023 (2022: £10.0m).

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.

Directors' interests

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

Directors' liabilities

During the year, the Group paid a premium for a contract insuring the Directors and Officers of VMUK, 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 £7k (2022: £6k) as part of the intercompany recharge.

Employees

The Company does not have any employees as it is serviced by the 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.

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 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.

Directors' report (continued)

Section 172 (1) statement (continued)

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 employees and management of customers, Government and regulators, investors, society and environmental stakeholders is managed by the Group 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 (2022: £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 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.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they are required to prepare the financial statements in accordance with UK adopted International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 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 International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- state whether UK adopted IASs in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- make an assessment of the Company's ability to continue as a going concern.

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

Directors' report (continued)

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution to appoint PricewaterhouseCoopers LLP, and to authorise the Directors to agree their remuneration, will be proposed at the next Group Annual General Meeting.

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 8 December 2023 and was signed on its behalf by:

Clifford Abrahams

Director

8 December 2023

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 2023 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- Obtaining an understanding of management's basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts.

- Assessing the appropriateness of key assumptions made by management in the Company's business plan by comparing them to historical performance and challenging the achievability of budgeted growth. In assessing the reasonableness of management's key assumptions, we considered the business environment, including the current state of the macro-economic environment, principal risks, uncertainties, and appropriate mitigating factors.

- Testing clerical accuracy of management's going concern assessment including the relevant data used in underlying forecasts.

- Assessing the appropriateness of the going concern disclosures and their compliance with UK adopted international accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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.

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

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.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, UK Tax Legislation as enforced by HM Revenue and Customs and International Accounting Standards.
- We understood how the Company is complying with those frameworks by making enquiries of management, and through discussions with those charged with governance. We also reviewed minutes of the Board and gained an understanding of the Company’s approach to governance, demonstrated by the Board’s approval of the Company’s governance framework.
- We assessed the susceptibility of the Company’s financial statements to material misstatement, including how fraud might occur by considering the risk of management override to be a fraud risk. We considered the controls that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of key stakeholders.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making inquiries of those charged with governance and management for their awareness of any non-compliance of laws and regulations by officers and employees, inquiring about the method of enforcing and monitoring compliance with such policies.

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

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

8 December 2023

Yorkshire Bank Home Loans Limited

Statement of comprehensive income

For the year ended 30 September 2023

	Note	2023 £'000	2022 £'000
Interest income and similar income		**21,405**	24,088
Interest expense and similar charges		**(26,545)**	(11,814)
Net interest (expense)/income		**(5,140)**	12,274
Fee and commission income		**212**	289
Other operating expenses	**4**	**(840)**	(472)
(Loss)/profit on ordinary activities before tax		**(5,768)**	12,091
Tax credit/(expense)	**5**	**1,149**	(1,981)
(Loss)/profit for the year attributable to equity holders		**(4,619)**	10,110
Total comprehensive (losses)/income for the year attributable to equity holders		**(4,619)**	10,110

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 the above years relate to continuing operations.

The notes on pages 15 to 32 form an integral part of these financial statements.

Yorkshire Bank Home Loans Limited

Balance sheet

As at 30 September 2023

	Note	2023 £'000	2022 £'000
Assets			
Loans and advances to customers	**6**	**646,358**	806,710
Corporation tax asset		**1,307**	142
Due from related entities	**15**	**1,281**	-
Deferred tax asset	**7**	**69**	81
Total assets		**649,015**	806,933
Liabilities			
Overdraft due to related party	**8**	**640,789**	779,007
Due to related entities	**9**	**-**	4,657
Other liabilities	**10**	**49**	473
Total liabilities		**640,838**	784,137
Equity			
Share capital	**11**	**-**	-
Retained earnings		**8,177**	22,796
Total shareholders' equity		**8,177**	22,796
Total liabilities and equity		**649,015**	806,933

The notes on pages 15 to 32 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 8 December 2023 and were signed on its behalf by:

Clifford Abrahams

Director

8 December 2023

Company No: 01855020

Statement of changes in equity

For the year ended 30 September 2023

	Notes	Share capital £'000	Retained earnings £'000	Total £'000
As at 1 October 2021		-	42,686	42,686
Total comprehensive income for the year		-	10,110	10,110
Dividends paid	**12**	-	(30,000)	(30,000)
As at 30 September 2022		-	22,796	22,796
Total comprehensive loss for the year		**-**	**(4,619)**	**(4,619)**
Dividends paid	**12**	**-**	**(10,000)**	**(10,000)**
As at 30 September 2023		**-**	**8,177**	**8,177**

The notes on pages 15 to 32 form an integral part of these financial statements.

Yorkshire Bank Home Loans Limited

Statement of cash flows

For the year ended 30 September 2023

	Note	2023 £'000	2022 £'000
Operating activities			
(Loss)/profit on ordinary activities before tax		**(5,768)**	12,091
Adjustments for non-cash movements:			
Non-cash movements included in loss/(profit) before tax		**5,140**	(12,274)
Changes in operating assets	**13**	**160,587**	65,388
Changes in operating liabilities	**13**	**(424)**	(1,750)
Interest received		**21,170**	24,254
Group relief paid		**(4,190)**	-
Tax paid		**(1,752)**	(456)
Net cash provided by operating activities		**174,763**	87,253
Cash flows from financing activities			
Interest paid		**(26,545)**	(11,814)
Dividends paid		**(10,000)**	(30,000)
Net cash used in financing activities		**(36,545)**	(41,814)
Net increase in cash and cash equivalents		**138,218**	45,439
Cash and cash equivalents at beginning of year		**(779,007)**	(824,446)
Cash and cash equivalents at end of year	**8**	**(640,789)**	(779,007)

The notes on pages 15 to 32 form an integral part of these financial statements.

Notes to the financial statements

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 a company incorporated in the UK and registered in Scotland. The ultimate parent undertaking and controlling party is Virgin Money UK PLC, 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, which should be read in conjunction with the Strategic report and the Directors' report, have been prepared in accordance with UK adopted International Accounting Standards (IASs).

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.

Climate change

The potential impact of climate-related risks on the Company's financial position and performance has been considered in preparing the financial statements.

This involved undertaking an assessment at a Group level over the assets (both financial and non-financial) and evaluating whether the observable effects of physical and transitional risk of climate change would have a material impact on the financial position and performance in the current year. It is widely understood and appreciated that the effects of climate change will not be significant in the short term and that the inherent risks and uncertainties in quantifying the effect of climate change in the financial statements are considerable and more likely to impact in the longer term. The Company's customer lending is the most significant financial asset in terms of being impacted by climate-related risks, primarily the expected credit loss implications and the ability of the customer to meet their contractual payments. Consequently, the Company considers the potential for material expected credit losses to emerge as a result of climate change in the short term to be negligible.

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. In addition, note 17 to the financial statements includes the Company's risk and capital management objectives.

In assessing the Company's going concern position as at 30 September 2023, the Directors have considered a number of factors, including the current balance sheet position and the Company's ongoing income and expenditure, taking account of possible changes in trading performance. As a consequence, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and at least 12 months from the approval of the financial statements, and therefore believe that the Company is well placed to manage its business risks successfully in line with its business model and strategic aims. 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

Accounting standards, amendments and interpretations

There were no mandatory significant International Accounting Standards Board (IASB) pronouncements adopted by the Company in the current financial year. The IASB has also issued a number of minor amendments to IASs that are not mandatory for 30 September 2023 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.

During the year, the Company early adopted Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' which was issued by the IASB in February 2021 (applicable for accounting periods beginning on or after 1 January 2023 with early adoption permitted) and endorsed for use in the UK by the UKEB in November 2022.

The amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. As part of this, the IASB amended IFRS Practice Statement 2 'Making Materiality Judgements' by adding guidance to help determine when accounting policy information is material and, therefore, needs to be disclosed.

The Company has assessed the requirements of the amendments against those accounting policies included within the 2022 financial statements.

Consequently, the following material accounting policies have been applied in preparing these financial statements.

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.

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.

Notes to the financial statements (continued)

2. Accounting polices (continued)

Financial instruments

Recognition and derecognition

Financial instruments are recognised when the Company becomes party to the contractual provisions of the instrument.

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

Classification and measurement

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

Financial assets

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

A financial asset is measured at amortised cost when (i) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding. The amortised cost classification applies to the Company’s loans and advances to customers’ balance.

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 ECL 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.

Notes to the financial statements (continued)

2. Accounting polices (continued)

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.

Write-offs and recoveries

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 impairment charge in the statement of comprehensive income.

Offsetting

This can only occur, and the net amount presented on the balance sheet when the Company currently 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.

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.

Notes to the financial statements (continued)

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IAS requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses reported in these financial statements. Assumptions made at each balance sheet date are based on best estimates at that date and are reviewed by the Directors at each reporting date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant use of judgements and estimates relate to the following:

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 Group Annual Report and Accounts for the year ended 30 September 2023.

Critical accounting estimates and judgements related to climate-related risks

In addition, management has also considered and reflected on the potential impact of climate-related risks on the Company's financial position and performance.

This involved undertaking an assessment over the Company's assets (both financial and non-financial) and evaluating whether the observable effects of physical and transition risk of climate change would have a material impact on the Company's financial position and performance in the current year. It is widely accepted that the effects of climate change in the UK will not be significant in the short term and that the inherent risks and uncertainties in quantifying the effect of climate change in the financial statements are considerable and more likely to impact in the medium to longer term.

The Company's customer lending is the most significant financial asset class exposed to the potential impact of climate-related risks, primarily through ECL implications, the ability of the customer to meet their contractual payments and the potential for a fall in collateral values. Given the challenges associated with modelling specific climate projections, our IFRS 9 scenarios do not make explicit and objective assumptions about climate change impacts and for which the associated probability can be derived within the existing methodology. Our base forecast, and therefore the scenarios, incorporate the short to medium-term (five-year horizon) impact of the domestic and global economy on demand for fossil fuel and thus emissions. Consequently we consider that as a UK-based bank with no significant lending outside of the UK, the potential for material ECLs to emerge as a result of climate change in the short term is negligible.

Overall, while the effects of climate change represent a source of significant uncertainty, the Company does not consider there to be a material impact on its estimates and judgements from physical and transition risks of climate change in these financial statements.

Effective Interest Rate (EIR)

The EIR is determined at initial recognition based upon the Group's best estimate of the future cash flows of the financial instrument over its expected life. Where these estimates are subsequently revised, a present value adjustment to the carrying value of the asset is recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the EIR method is a source of estimation uncertainty.

The Group considers that significant judgement is exercised over the mortgage portfolio. Due to the inherent judgement and estimation uncertainty that exists in determining the EIR adjustment, a model risk reserve is held to mitigate this uncertainty.

For mortgage products the main accounting estimates and judgements when assessing the cash flows are the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR) period) and the applicable SVR. As at 30 September 2023 a total EIR adjustment of £0.5m (2022: £4.4m) was recognised for mortgages. This represented 0.001% (2022: 0.5%) of the balance sheet carrying value of gross loans and advances to customers for mortgage lending. The net impact of the mortgage EIR adjustments was a charge to the income statement in the year representing (18.3)% of gross customer interest income for mortgages (2022: credit to the income statement representing 0.3% of gross customer interest income for mortgages).

Notes to the financial statements (continued)

3. Critical accounting estimates and judgements (continued)

Product Life

This primarily involves assumptions of customer behaviour when a fixed rate product comes to an end and reverts to the Group's SVR. The Group currently assumes that 86% (2022: 81%) of customers will have fully repaid or switched to a new product within two months of reverting to SVR.

SVR

Changes to the Bank of England base rate have an impact on the SVR charged to customers and subsequently on the Group's interest income. The Group historically passes base rate changes through to SVR in full but, on occasion, may choose not to do so.

The significant accounting estimates are monitored on an ongoing basis to ensure that they remain appropriate based on recent observable customer behaviours, market data (such as market derived base rate forecasts) and take into account of the competitive environment in which the Group operates. The Group also considers potential changes to future customer behaviour as a result of macro-economic factors. There continues to be increased uncertainty in purchase and switching activity as a result of actual and anticipated base rate rises. The Group has taken this into account when determining the EIR modelling assumptions.

Sensitivity analysis

As noted above, the calculation of the Group's EIR adjustment is sensitive to changes in product life and SVR assumptions. There are inter-dependencies between the assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed below assume all other assumptions remain unchanged.

Sensitivity impact on the mortgage EIR asset	**2023**	2022
	£'000	£'000
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	**128 / (81)**	263 / (148)
50bps increase to the Bank of England base rate not passed through to the Group's SVR	**(215)**	(959)

4. Other operating expenses

	2023	2022
	£'000	£'000
Loan impairment expense/(credit)	**148**	(595)
Related entity recharges for administrative expenses	**691**	1,058
Other operating expenses	**1**	9
	840	472

Included within related entity recharges for administration expenses, are audit fees of £31k in relation to the current year (2022: £36k).

Notes to the financial statements (continued)

5. Taxation

	2023 £'000	2022 £'000
Current tax		
UK Corporation tax at 22% (2022: 19%)		
Current year	**(1,281)**	2,286
Adjustment in respect of prior years	**120**	(315)
	(1,161)	1,971
Deferred tax		
Current year	**14**	10
Effect of changes in tax rates	**(2)**	-
Tax (credit)/expense for the year	**(1,149)**	1,981

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK (22%) (2022: 19%). 22% is the average standard rate for the full financial year, comprising 19% to 1 April 2023 then 25% to 30 September 2023. A reconciliation from the (credit)/expense implied by the standard rate to the actual tax (credit)/expense is as follows:

	2023 £'000	2022 £’000
(Loss)/profit on ordinary activities before tax	**(5,768)**	12,091
Tax (credit)/expense based on the standard rate of corporation tax in the UK of 22% (2022: 19%)	**(1,269)**	2,297
Effects of:		
Adjustment in respect of prior years	**120**	(315)
Change in tax rate	**-**	(1)
Tax (credit)/expense for the year	**(1,149)**	1,981

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. On 17 October 2022, the Chancellor of the Exchequer confirmed that, in line with the previously enacted legislation, the UK corporation tax rate will increase to 25% from 1 April 2023. This will increase the Company’s future current tax charge accordingly.

Notes to the financial statements (continued)

6. Loans and advances to customers

	2023 £'000	2022 £'000
Gross loans and advances to customers	**649,215**	809,555
Provision for expected credit losses (note 14)	**(2,857)**	(2,845)
	646,358	806,710

Remaining maturity of total loans and advances	2023 £'000	2022 £'000
Current loans and advances to customers		
1 year or less	**9,110**	11,929
Non-current loans and advances to customers		
Between 1 and 5 years	**50,420**	59,753
Over 5 years	**586,828**	735,028
	637,248	794,781
Total loans and advances to customers	**646,358**	806,710

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:

	2023 %	2022 %
LTV [1]		
Less than 50%	**53**	51
50% to 75%	**40**	43
76% to 80%	**4**	4
81% to 85%	**2**	1
86% to 90%	**1**	-
91% to 95%	**-**	-
96% to 100%	**-**	-
Greater than 100%	**-**	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

	2023	2022
	£'000	£'000
Deferred tax asset:		
Opening balance	**81**	91
Income statement charge	**(12)**	(10)
Closing balance	**69**	81

The deferred tax asset relates to short term timing differences.

8. Overdraft due to related party

	2023	2022
	£'000	£'000
Overdrafts	**640,789**	779,007

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

9. Due to related entities

	2023	2022
	£'000	£'000
Group relief payable	**-**	4,657

10. Other liabilities

	2023	2022
	£'000	£'000
Settlement clearing	**49**	473

11. Share capital

	Number	£
Allotted, called up and fully paid:		
Ordinary shares of £1 each		
At 30 September 2023 and 2022	**100**	**100**

Notes to the financial statements (continued)

12. Dividends paid

	2023	2022
	£'000	£'000
Total dividends paid	**10,000**	30,000
Dividend per share	**100**	300

The Directors do not recommend the payment of a final dividend in respect of this financial year (2022: £10.0m).

13. Notes to the statement of cash flows

	2023	2022
	£'000	£'000
Changes in operating assets		
Net decrease in:		
Loans and advances to customers	**160,587**	65,388
	160,587	65,388
Changes in operating liabilities		
Net decrease in:		
Other liabilities	**(424)**	(1,750)
	(424)	(1,750)

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 2022	752,901	341	31,596	1,341	25,058	1,163	809,555	2,845
Loan originations	64,583	21	243	1	-	-	64,826	22
Sale of loans to CB PLC	(50,355)	(3)	(1,414)	(1)	(140)	-	(51,909)	(4)
Transfers between stages, repayments and other re-measurements	(150,526)	694	(15,709)	(545)	(7,022)	(155)	(173,257)	(6)
Closing balance at 30 September 2023	**616,603**	**1,053**	**14,716**	**796**	**17,896**	**1,008**	**649,215**	**2,857**

	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 2021	647,463	158	198,983	1,763	29,256	1,517	875,702	3,438
Loan originations	104,804	25	-	-	488	2	105,292	27
Sale of loans to CB PLC	(21,303)	(2)	(266)	(3)	-	-	(21,569)	(5)
Transfers between stages, repayments and other re-measurements	21,937	160	(167,121)	(419)	(4,686)	(356)	(149,870)	(615)
Closing balance at 30 September 2022	752,901	341	31,596	1,341	25,058	1,163	809,555	2,845

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. Transactions with related parties are disclosed below:

	2023	2022
	£'000	£'000
Transactions during the year		
CB PLC		
Sale of loans and advances to customers	**51,909**	21,569
Interest paid	**26,545**	11,814
Related entity recharges for various administrative expenses	**691**	1,058
Balances at year end		
Group relief receivable	**1,281**	-
Overdraft due to CB PLC	**(640,789)**	(779,007)
Group relief payable	**-**	(4,657)

Transactions with Directors, key management and their close family members

There were no amounts outstanding at 30 September 2023 (2022: £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 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 £7k (2022: £6k) 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.

	2023		2022	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets	**£'000**	**£'000**	£'000	£'000
Loans and advances to customers	**646,358**	**640,673**	806,710	776,915

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

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 (2022: none).

Notes to the financial statements (continued)

17. Management of risk and capital

Management of risk

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

Credit risk

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

No significant transactions occur outside of the UK and the Company has no material credit concentration risk exposure.

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

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:

	2023	2022
	£'000	£'000
Assets		
Loans and advances to customers	**646,358**	806,710
Total credit risk exposure	**646,358**	806,710

At 30 September 2023 there were £28.8m of undrawn commitments (2022: £43.6m).

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.

17. Management of risk and capital (continued)

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.

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.

Notes to the financial statements (continued)

17. Management of risk and capital (continued)

Mortgage forbearance

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:

2023	**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	**123**	**8,560**	**1.33%**	**141**	**1.65%**
Temporary arrangements	**53**	**4,523**	**0.70%**	**162**	**3.58%**
Interest only conversion	**22**	**2,960**	**0.46%**	**51**	**1.72%**
Term extension	**15**	**888**	**0.14%**	**8**	**0.92%**
Legal	**11**	**807**	**0.12%**	**14**	**1.68%**
Other	**23**	**1,478**	**0.23%**	**22**	**1.47%**
	247	**19,216**	**2.98%**	**398**	

2022	**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	130	10,289	1.29%	134	1.31%
Temporary arrangements	47	3,241	0.40%	145	4.48%
Interest only conversion	55	6,204	0.77%	45	0.73%
Term extension	23	1,431	0.18%	13	0.88%
Legal	30	1,860	0.23%	24	1.29%
Other	4	323	0.04%	2	0.48%
	289	23,348	2.91%	363	

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 2023, the Company had 16 (2022: 11) customers with interest only mortgages not subject to forbearance and which were post six month maturity with a total value of £2.4m (2022: £1.6m).

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 2023 there were 3 repossessions of which none were voluntary (2022: 3, including none voluntary).

Notes to the financial statements (continued)

17. Management of risk and capital (continued)

Liquidity risk

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

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 risk due to the related party nature of funding and liability exposures with fellow Group companies.

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:

2023	**At call**	**3 months or less**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets							
Loans and advances to customers	**-**	**7,607**	**1,503**	**50,420**	**586,828**	**-**	**646,358**
Liabilities							
Overdraft due to related party	**640,789**	**-**	**-**	**-**	**-**	**-**	**640,789**
Other liabilities	**-**	**49**	**-**	**-**	**-**	**-**	**49**
	640,789	**49**	**-**	**-**	**-**	**-**	**640,838**

2022	At call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans and advances to customers	-	8,171	3,758	59,753	735,028	-	806,710
Liabilities							
Overdraft due to related party	779,007	-	-	-	-	-	779,007
Trade and other payables	-	-	4,657	-	-	-	4,657
Other liabilities	-	473	-	-	-	-	473
	779,007	473	4,657	-	-	-	784,137

Notes to the financial statements (continued)

17. Management of risk and capital (continued)

Cash flows payable under financial liabilities by contractual maturity:

2023	**At call**	**3 months or less**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities							
Overdraft due to related party	**640,789**	**-**	**-**	**-**	**-**	**-**	**640,789**
Other liabilities	**-**	**49**	**-**	**-**	**-**	**-**	**49**
	640,789	**49**	**-**	**-**	**-**	**-**	**640,838**

2022	At call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities							
Overdraft due to related party	779,007	-	-	-	-	-	779,007
Trade and other payables	-	-	4,657	-	-	-	4,657
Other liabilities	-	473	-	-	-	-	473
	779,007	473	4,657	-	-	-	784,137

Market risk

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

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

Interest rate risk

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

Management of capital

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

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

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

18. Events after the balance sheet date

There were no further events after the balance sheet date.