Annual Report and Financial Statements

CYB Intermediaries Limited

For the year ended 30 September 2021

Company Number: 04056283

CYB Intermediaries Limited

Annual Report and Financial Statements
For the year ended 30 September 2021

Contents

CYB Intermediaries Limited

Directors and Professional Advisors
For the year ended 30 September 2021

Directors	Hugh Chater Clifford Abrahams
Company Secretary	Graeme Duncan
Registered Office	Jubilee House Gosforth Newcastle-Upon-Tyne NE3 4PL
Bankers	Clydesdale Bank PLC
Auditor	Ernst & Young LLP Atria One, 144 Morrison Street, Edinburgh EH3 8EX

CYB Intermediaries Limited

Strategic Report

The Directors of CYB Intermediaries Limited ("the Company") present their Strategic Report for the year ended 30 September 2021.

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

Business Structure

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

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

Principal activities

The Company distributes a range of insurance products primarily in:

- Home Insurance
- Life Insurance

The Company's business strategy is based on a partnership model, seeking to collaborate with businesses that share its commitment to straightforward and transparent products.

Home Insurance is arranged and administered by Royal Sun Alliance. Home insurance was sold under the Group's Clydesdale Bank and Yorkshire Bank brands during the year. However work is underway to rebrand home insurance to Virgin Money with full rollout expected in the first half of financial year 2022.

Life Insurance is arranged and administered in partnership with Legal and General.

The Company also generates commission income from business customers introduced to Worldpay under the commercial partnership agreement. The Company has served notice to Worldpay of its intention to terminate the contract and this is due to cease from July 2022.

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.

	Year to 2021	Year to 2020
Financial Results	**£'000**	£'000
Revenue	**15,208**	18,284
Profit/(loss) on ordinary activities before tax	**13,592**	(32,104)

Revenue decreased by £3.1m (17%) to £15.2m (2020: £18.3m). The main driver of the decrease is a one-off gain in the prior year of £4.7m resulting from the settlement of deferred consideration.

Home insurance performance during the year remained relatively consistent to the prior year generating £5.3m of revenue (2020: £5.5m). Renewals remained strong with a 95% retention rate. New business of £0.1m (2020: £0.2m) was slightly down on the prior year and is a small proportion of the book. Profit share received from Royal Sun Alliance in the year was £2.2m (2020: £1.6m) predominantly driven by a release of reserves due to a liability claim being lower than originally estimated.

Life insurance performance has dropped in the year from £0.5m to £0.3m, due to lower sales of new policies, predominantly driven by lower number of heritage Clydesdale Bank and Yorkshire Bank direct mortgage sales.

Worldpay income generated £7.1m (2020: £4.9m) a £2.2m increase on the prior year. The economy re-opened strongly for many merchants in the second half of the financial year which has had a marked effect on increased card usage in recent months. A beneficial mix of card usage and rates paid also contributed.

The loss before tax in 2020 arose due to an impairment of £48.9m reducing the goodwill asset on the balance sheet from £82.1m to £33.2m. No impairment has arisen in 2021.

The Company's Balance Sheet for the year is set out on page 12. The Company's total assets decreased by £19.5m (19%) and total liabilities decreased by £0.5m (20%) as at 30 September 2021 when compared to total assets and total liabilities at 30 September 2020. The decrease in total assets is driven by a dividend payment made to the Company's parent Clydesdale Bank Plc of £30m, reducing cash at bank.

Key performance indicators

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

Future developments

Home Insurance is currently undergoing a request for proposal process, with the aim of having a new partner selected in the financial year 2022. The selected partner is expected to significantly enhance our digital capabilities, introduce a new digital proposition, provide funded and managed marketing expertise and expand the offering to new sales channels which will grow the new business income stream as well as the back book.

Life Insurance will benefit from two key developments. The first development is integrating mortgage protection into the new mortgage platform under development, which will further enhance the customer and mortgage adviser protection journey and result in more customers being protected. The second element relates to promoting mortgage protection to existing mortgage customers using the new digital protection platform that has been introduced.

Travel Insurance currently sits within another subsidiary company of the Group, Virgin Money Personal Financial Service Limited, however with the launch of a new partner and proposition, it is expected this will transition to the Company during financial year 2022. Focus for Travel Insurance is on the Company's new partnership with Hood Group ("Hood"), enhancing the digital proposition and customer journey capabilities. Hood's technology platform offers unparalleled capabilities to service customers digitally and aligns with VMUK's own ambitions to be the leading digital bank and our 'Happier' purpose. Flexible high-quality customer journeys are complemented by a range of support options for customers at all stages of the customer lifecycle. It also brings great quality and competitive products, well suited to the company's target audience and distribution channels. This will improve the current proposition and broaden customer footprint, particularly for customers with medical conditions – a key growth area. Hood have also outlined a development roadmap for future innovation, with new and compelling products designed to meet broader customer needs when travelling.

Strategic Report (continued)

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

- **Credit risk:** the risk that a counterparty fails to pay the Company monies owed. The Company manages this risk by undertaking due diligence on prospective counterparties and monitoring their position on an ongoing basis.
- **Market risk:** the risk that the value of, or net income arising from, the Company's assets and liabilities changes as a result of changes to interest rates or following a movement in the stock market. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising return. The Company is not exposed to any significant currency risk.
- **Liquidity risk:** the risk that the Company is unable to meet its obligations as they fall due. The Company's cash position is monitored on a regular basis and liquidity is supported by intercompany facilities if required.
- **Compliance risk:** the risk that the Company fails to comply with its regulatory requirements with the potential that the Company:
  - treats customers unfairly, potentially exposing them to financial or other detriment;
  - is subject to legal or regulatory sanction;
  - suffers reputational damage; or
  - is used for the purposes of financial crime.

  The Group Risk function supports the Company to develop policies, deliver training and perform monitoring checks to ensure compliance with regulatory requirements.
- **Legal risk:** the risk of legal sanction, material financial loss or loss of reputation that the Company may suffer as a result of its failure to comply with the law, inadequately document its contractual arrangements or inadequately assess and implement changes required by forthcoming legislation or emerging case law. The Group Legal function supports the Company in meeting its contractual obligations and assessing legal developments.
- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. A range of indicators covering the Company's operations is reviewed by the Board regularly throughout the year. All key business processes are subject to periodic reviews by the Group's Risk and Internal Audit teams to ensure that appropriate controls are in place and operating effectively.
- **Outsourcing risk:** the risk that the Company fails in its responsibility to oversee and control third parties on which it is reliant for the performance of critical operational functions, including regulated activities. Failure to meet required standards may place the Company at risk of regulatory sanction and could result in loss of income or reputational damage. The Company manages this risk by performing due diligence on all third-party providers and, following appointment, by performing regular monitoring of third parties against agreed service levels.

The Strategic Report was approved by the Board of Directors on 14 December 2021 and was signed on its behalf by:

Clifford Abrahams

14 December 2021

CYB Intermediaries Limited

Directors' Report

The Directors present their Annual Report and audited Financial Statements for the Company for year ended 30 September 2021.

Corporate governance

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

Profits and appropriations

The gain attributable to the shareholders for the year ended 30 September 2021 amounted to £11.0m (2020: £35.3m loss). The results of the Company are analysed further in the Strategic Report.

An interim dividend was paid during the year of £30.0m (2020: £Nil) as recommended by the Directors. The Directors recommend the payment of a final dividend of £30.0m in respect of this financial year (2020: £Nil).

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management policies of the Company, in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' Report, has been included in the Strategic Report and is discussed in further detail in note 18 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. The following appointments and resignations took place during the year:

Appointments

Clifford Abrahams was appointed as a Director of the Company on 8 March 2021.

Resignations

Mark Thundercliffe resigned as a Director of the Company on 7 March 2021.

Directors' interests

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

Directors' liabilities

During the year, 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.

CYB Intermediaries Limited

Directors' Report (continued)

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 £6,000 (2020: £6,000), these costs are recharged to the Company by CB PLC.

Employees

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

Political donations

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

s172(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.

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 https://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.

The Company has no employee's and management of customers, Government and regulators, 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.

Related parties

Details of related party transactions are set out in note 17 to the financial statements.

Share capital

Information about share capital is shown in note 14 to the financial statements.

Going concern

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

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

Directors' Report (continued)

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies in accordance with International Accounting Standard 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 IASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- state that the Company has complied with IASs, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- make an assessment of the Company's ability to continue as a going concern.

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 14 December 2021 and was signed on its behalf by:

Clifford Abrahams

14 December 2021

Independent Auditor's Report to the Members of CYB Intermediaries Limited

Opinion

We have audited the financial statements of CYB Intermediaries Limited for the year ended 30 September 2021 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

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

Independent Auditor's Report to the Members of CYB Intermediaries 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 there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out on page 7, 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

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

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

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

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

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

Use of our report

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

Ernst & Young LLP

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

CYB Intermediaries Limited

Statement of Comprehensive Income
For the year ended 30 September 2021

	Note	**Year to 2021 £'000**	Year to 2020 £'000
Revenue	3	**15,208**	18,284
Administrative expenses	4	**(1,644)**	(1,940)
Operating profit		**13,564**	16,344
Finance income	5	**28**	444
Goodwill impairment	7	**-**	(48,892)
Profit/(loss) on ordinary activities before tax		**13,592**	(32,104)
Income tax (charge)	6	**(2,582)**	(3,190)
Profit/(loss) attributable to the equity holders of the parent		**11,010**	(35,294)
Total comprehensive income/(loss) for the year attributable to the equity holders of the parent		**11,010**	(35,294)

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

The notes on pages 15 to 27 form an integral part of these financial statements.

CYB Intermediaries Limited

Balance Sheet

As at 30 September 2021

	Note	**2021**	2020
		£'000	£'000
Assets			
Cash at bank	16	**48,392**	63,999
Trade and other receivables	11	**32**	20
Commission Renewal	10	**82**	190
Due from related entities	17	**-**	3,779
Deferred tax asset	9	**1**	1
Goodwill	7	**33,228**	33,228
Total Assets		**81,735**	101,217
Liabilities			
Trade and other payables	12	**278**	278
Due to related entities	17	**76**	-
Current taxes		**1,659**	2,227
Total Liabilities		**2,013**	2,505
Equity			
Capital contribution	15	**33,228**	33,228
Retained earnings		**46,494**	65,484
Total shareholders' equity		**79,722**	98,712
Total Liabilities and Equity		**81,735**	101,217

The notes on pages 15 to 27 form an integral part of these financial statements.

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

Clifford Abrahams

14 December 2021
Company number: 04056283

CYB Intermediaries Limited

Statement of Changes in Shareholders' Equity
For the year ended 30 September 2021

	Capital contribution	Retained earnings	Total
	£’000	**£’000**	**£'000**
As at 1 October 2019	82,120	51,886	134,006
Total income for the year	-	(35,294)	(35,294)
Transfer	(48,892)	48,892	-
As at 30 September 2020	33,228	65,484	98,712
Total income for the year	-	11,010	11,010
Dividend	-	(30,000)	(30,000)
As at 30 September 2021	**33,228**	**46,494**	**79,722**

The notes on pages 15 to 27 form an integral part of these financial statements.

CYB Intermediaries Limited

Statement of Cash Flows

For the year ended 30 September 2021

	Note	**Year to 2021 £'000**	Year to 2020 £'000
Operating activities			
Profit/ (loss) on ordinary activities before tax		**13,592**	(32,104)
Adjustment for: Non-cash or non-operating items included in profit before tax			
Finance income	8	**-**	(214)
Impairment of Goodwill	7	**-**	48,892
Unwind of Commission Renewal		**108**	277
Changes in financial asset at fair value through profit and loss	8	**-**	5,311
Changes in operating assets	13	**(12)**	306
Changes in operating liabilities	13	**-**	49
Tax paid		**(568)**	(297)
Group relief paid		**(2,582)**	(3,469)
Net cash provided by operating activities		**10,538**	18,751
Cash flows from financing activities			
Net decrease in amounts due from related entities	17	**3,779**	1,406
Net increase in amounts due to related entities	17	**76**	-
Dividends paid	14	**(30,000)**	-
Net (decrease)/ increase in cash used in financing activities		**(26,145)**	**1,406**
Net (decrease)/ increase in cash and cash equivalents		**(15,607)**	**20,157**
Cash and cash equivalents at the beginning of the year		**63,999**	43,842
Cash and cash equivalents at the end of the year	16	**48,392**	**63,999**

The notes on pages 15 to 27 form an integral part of these financial statement

CYB Intermediaries Limited

Notes to the Financial Statements

For the year ended 30 September 2021

1. Basis of preparation

Reporting entity

The Company is incorporated in the UK and registered in 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 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 International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006[1].

The financial statements of the Company for the year ended 30 September 2021 were authorised for issue by the Board of Directors on 14 December 2021.

Basis of measurement

The financial information has been prepared under the historical cost convention, as modified by the application of fair value measurements. A summary of the 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 pages 2-4. In addition, note 18 to the financial statements includes the Company's risk and capital management policies and objectives.

In assessing the Company's going concern position as at 30 September 2021, the Directors have considered a number of factors, including the current balance sheet position and the Company's ongoing income and expenditure, taking account of possible changes in trading performance. As a consequence, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and at least 12 months from the approval of the financial statements, and therefore believe that the Company is well placed to manage its business risks successfully in line with its business model and strategic aims. This includes the impact of COVID-19 on the Company's current financial position and results and the potential impact in future financial periods. Accordingly, the Directors adopt the going concern basis in preparing the Annual Report and Financial Statements.

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

Notes to the Financial Statements (continued)

2. Accounting policies

New accounting standards and interpretations

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

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

New accounting standards and interpretations not yet adopted

The IASB has issued a number of minor amendments to IASs that are not mandatory for 30 September 2021 reporting periods and have not been early adopted by the Company. These amendments are not expected to have a material impact for the Company and have therefore not been listed.

Currency of presentation

Functional and presentation currency

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

Revenue recognition

Commissions

The Company receives commissions on the basis of either new or renewed home insurance policies. Commission is accounted for as the performance obligation is satisfied which is on the placement of the policies. Commission recognised in respect of renewed policies is based on an estimate on historic rates of renewal, with the amount recognised constrained based on qualitative factors such as the term of contractual arrangements with insurers. This constraint limits the value of renewal commission recognised on initial placement.

Interest receivable

Interest received is recognised on an accruals basis.

Profit share

The Company receives profit share from third party insurance providers which is composed of an advance element and a retrospective payment. The advance payment is accounted for on an accruals basis and the retrospective payment accounted for on a receipts basis.

2. Accounting policies (continued)

Income tax

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

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

Current tax

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

Deferred tax

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

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

Cash and cash equivalents

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

Financial instruments

Recognition and derecognition

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

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

Classification and measurement

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

Financial assets

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

2. Accounting policies (continued)

Financial Assets (continued)

A financial asset is measured at amortised cost when (i) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding. The amortised cost classification applies to the Company's cash and cash equivalents/cash and bank balances/due from other banks/loans and advances to customers/contract assets/trade and other receivables/commission renewals/related party balances.

Financial liabilities

All financial liabilities are measured at amortised cost.

Offsetting

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

Commission renewals

Commission renewals are contract assets created by the recognition of renewal commissions at the date when the performance obligation is satisfied which is prior to the Company receiving payment. Renewal commissions become receivable annually on the anniversary of the policy inception. Commission renewals are subject to the ECL criteria of IFRS 9.

Impairment of financial assets and contract assets

At each reporting date, the Company assesses financial assets measured at amortised cost and contract assets for impairment and calculates the resultant impairment loss allowance using an expected credit loss (ECL) methodology. Financial assets held at FVTPL are not subject to the ECL methodology.

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.

Fair value measurement

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.

2. Accounting policies (continued)

Trade and other receivables

Trade and other receivables are carried at the lower of their original value and recoverable amount with a provision made when there is objective evidence that the Company will not be able to recover balances in full. Accrued income represents commission income receivable on policies written or renewed within the year.

Commission renewals

Commission renewals are contract assets created by the recognition of renewal commissions at the date when the performance obligation is satisfied which is prior to the Company receiving payment. Renewal commissions become receivable annually on the anniversary of the policy inception. Commission renewals are subject to the ECL criteria of IFRS 9.

Goodwill

Goodwill arises on the acquisition of a business and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition, over the fair value of the Company's share of assets at the date of acquisition.

Goodwill is capitalised on acquisition and reviewed annually for impairment, or more frequently, when there are indications that impairment may have occurred. The key assumptions and sensitivities involved in these calculations are disclosed in note 7 to the financial statements.

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.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless they are remote.

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.

Notes to the Financial Statements (continued)

3. Revenue

	2021 £'000	2020 £'000
Commission	**12,989**	12,039
Profit Share	**2,219**	1,572
Gain on settlement of deferred consideration	**-**	4,673
	15,208	18,284

4. Administrative expenses

	2021 £'000	2020 £'000
Administrative expenses	**1,644**	1,940
	1,644	1,940

Included within administrative expenses are audit fees, recharged through CB PLC, of £7,200 (2020: £7,200).

5. Finance income

	2021 £'000	2020 £'000
Interest income	**-**	214
Other finance income	**28**	230
	28	444

Interest income was generated from financial assets at fair value through profit and loss. These assets were disposed of during the previous financial year.

Notes to the Financial Statements (continued)

6. Taxation

	2021	2020
	£'000	£'000
Current tax		
UK corporation tax		
Current year	**2,582**	3,190
Tax charge reported in Income Statement	**2,582**	3,190

The tax assessed for the year differs from the standard rate of corporation tax in the UK (19%). The differences are explained below:

	2021	2020
	£'000	£'000
Profit / (Loss) on ordinary activities before tax	**13,592**	(32,104)
Profit on ordinary activities multiplied by standard rate of corporation tax		
in the UK of 19% (2020: 19%)	**2,582**	(6,099)
Impairment of goodwill	**-**	9,289
Tax charge	**2,582**	3,190

Notes to the Financial Statements (continued)

7. Goodwill

	2021 £'000	2020 £'000
Balance as at 1 October 2020	33,228	82,120
Impairment	-	(48,892)
Balance at 30 September 2021	**33,228**	33,228

There were no acquisitions in 2021 (2020: None).

Goodwill has arisen through business combinations in previous periods. The recoverable amount has been derived from a value in use calculation using discounted cash flow techniques, based on future sales volumes that management believe are consistent with the revised levels of commission sharing arrangements and expense levels.

Goodwill is subject to annual testing for impairment as described in note 2. There was no impairment identified for the year ended 30 September 2021 (2020: partial impairment of £48.9m).

Key assumptions used in impairment testing:

Growth in cash flows from operations: This is based on detailed business plans and product volume growth projections and includes estimates of future expenses to be incurred in the ordinary course of business. The terminal growth rate has been reduced to nil based on future forecast information (2020: 0%).

Discount rates: The impairment model is based on pre-tax cash flows and utilises a pre-tax discount rate of 14.1% (2020 12.1%). The discount rate is based on the Company's estimated cost of capital.

An increase of 10 basis points in the pre-tax discount rate or a 10 basis point decrease in the projected terminal growth rate, if adjusted independently of all other variables, would reduce the recoverable amount by £0.6m and £0.2m respectively. Under both scenarios the recoverable amount would still be in excess of the carrying value resulting in no impairment. Conversely, a decrease of 10 basis points in the pre-tax discount rate or a 10 basis point increase in the projected terminal growth rate would increase the recoverable amount by £0.6m and £0.2m respectively.

The valuation is based upon forecasts up to September 2026**.**

8. Financial asset at fair value through profit and loss

	2021 £'000	2020 £'000
Opening balance 1 October	**-**	5,097
Commission	**-**	(434)
Interest income	**-**	214
Uplift in valuation		-
Proceeds	**-**	(9,550)
Fair value gains/(losses) recognised in profit or loss - realised	**-**	4,673
As at 30 September	**-**	-

8. Financial asset at fair value through profit and loss (continued)

Deferred consideration was classified as a financial asset at fair value through profit and loss (FVTPL). In 2013, the rights to deferred consideration of £9m were transferred from MLC Trust Management Company Limited at book value. The deferred consideration represented a receivable from AXA Group in the form of future commission connected to the sale of the fund management business from MLC Trust Management Company Limited to AXA Group which completed in 2009. This was reduced to £Nil on the receipt of final Settlement of AXA deferred consideration in February 2020 at which time the deferred consideration was derecognised from the balance sheet.

In the prior year, £0.4m of commission was received of which £0.2m was credited to Statement of Comprehensive Income reflecting the interest income attributable to the nominal value of the commission received in the year.

9. Deferred Tax

	2021	2020
	£'000	£'000
Deferred tax asset:		
Opening balance	**1**	1
Tax expense recognised in Income Statement	**-**	-
Closing balance	**1**	**1**
The deferred tax asset is attributable to the following items:		
Capital allowances in excess of depreciation	**1**	1
	1	1

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

10. Commission Renewal

	2021	2020
	£'000	£'000
Commission Renewal	**82**	190

Commission renewals are subject to the expected credit loss (ECL) requirements of IFRS 9. No ECLs have been provided in these financial statements on the grounds of materiality.

Commission recognised in respect of renewed policies is based on an estimate on historic rates of renewal, with the amount recognised constrained based on qualitative factors such as the term of contractual arrangements with insurers. This constraint limits the value of renewal commission recognised on initial placement.

The most significant input impacting the carrying value of the commission renewal asset is the retention rate. The Company currently assumes a retention rate of 95%. If this rate was 10% higher the value would increase by £9,000, if it was 10% lower the value would decrease by £9,000.

CYB Intermediaries Limited

Notes to the Financial Statements (continued)

11. Trade and other receivables

	2021	2020
	£'000	£'000
Prepayments and accrued income	**32**	20

12. Trade and other payables

	2021	2020
	£'000	£'000
Accruals and deferred income	**278**	278

13. Notes to the statement of cash flows

	2021	2020
	£'000	£'000
Changes in operating assets		
Net decrease/(increase) in:		
Trade and other receivables	**(12)**	306
	(12)	306
Changes in operating liabilities		
Net increase/(decrease) in:		
Trade and other payables	**-**	49
	-	49

14. Issued Capital

	30 Sep 2021		30 Sep 2020	
Share Capital	**Shares**	**£'000**	Shares	£'000
Allotted, called up and fully paid ordinary shares of £1 each	**1**	**-**	1	-

Dividends paid

	2021	2020
	£'000	£'000
Dividends paid	**30,000**	-

The Board approved an interim dividend payment of £30.0m to Clydesdale Bank PLC in July 2021 and this was paid on 19 July 2021. The Directors recommend the payment of a final dividend of £30.0m in respect of this financial year (2020: £Nil).

15. Capital Contribution

The capital contribution reserve represents dividends waived by the Company's parent undertaking.

Notes to the Financial Statements (continued)

16. Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash at bank	**48,392**	63,999

17. Related party transactions

	2021	2020
	£'000	£'000
Amounts due from related entities		
Trade and other receivables		
Controlled entities of the ultimate parent	**-**	3,779
Trade and other payables		
Controlled entities of the ultimate parent	**(76)**	-
Cash and short term deposits		
Controlled entities of the ultimate parent	**48,392**	63,999
Total amounts due from related entities	**48,316**	67,778
Other transactions with related entities - administration expenses		
Controlled entities of the ultimate parent		
Intercompany finance income	**28**	230
Intercompany recharges	**(944)**	(1,301)
Direct income and expenses recharged	**6,914**	5,081
	5,998	4,011

During the year there have been transactions between the Company, its ultimate parent and controlled entities of the ultimate parent.

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

Transactions with directors, key management or their close family members

There were no transactions with directors, key management or their close family members during the year and no amounts outstanding at 30 September 2021 (2020: £Nil) under transactions, arrangements and agreements with the Company from Directors, key management and their close family members.

17. Related party transactions (continued)

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 £6,000 (2020: £6,000) of their remuneration as being in respect of their duties to the Company.

18. Management of risk and capital

Management of Risk

The main risks arising from the Company's financial instruments are credit risk, market risk and liquidity risk. Responsibility for the control of overall risk lies with the Directors, operating within a management framework that aligns to that of its immediate parent, CB PLC, and of its ultimate parent entity Virgin Money UK PLC. The more pertinent risks are summarised below.

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 carrying value of financial assets as shown on the balance sheet on page 12 represents the Company's maximum exposure to credit risk. The Company has no undrawn exposures or commitments and has no material credit concentration risk exposure.

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

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

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

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.

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

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

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.

Notes to the Financial Statements (continued)

18. Management of risk and capital

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

19. Post Balance Sheet events

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