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CLYDESDALE FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

CLYDESDALE FINANCIAL SERVICES LIMITED

CONTENTS

CLYDESDALE FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their annual report and the financial statements of Clydesdale Financial Services Limited ("the Company") for the year ended 31 December 2022.

The Company trades as 'Barclays Partner Finance' giving it instant brand recognition, which supports prospecting activity and cross-sale income generation.

Results and dividends

The loss for the year, after taxation, amounted to £320.7m in 2022 (2021 loss after tax: £83.5m).

The Directors do not recommend the payment of a dividend (2021: NIL).

Post Balance Sheet events

Since year-end, the Company has announced a significant change in its business strategy to scale back the Barclays Partner Finance business over the next 18-24 months as the Barclays Group invests in building a new technology platform for the point-of-sale finance business to ensure it remains fit for the future. As a result, Barclays Partner Finance will pause the onboarding of new retail partners, and it will only provide new loans through a small number of its existing partners.

During June 2023, Barclays Luxembourg Global Funding (BLGF) novated £67.3m of funding with the Company to Barclays Bank PLC (BBPLC). Subsequently BBPLC released the Company from its debt obligation which was treated as an increase in Shareholders' Equity for the Company. This item has not been adjusted for in the 2022 Financial Statements, as permissible under IAS 10 for conditions arising after the balance sheet date.

Directors

The Directors of the Company, who served during the year and up to the date of signing the financial statements are as shown below:

A Callison
J R Davies
M Page
A Stephen (appointed on 23 January 2022)

Since the year end, M Newbery was appointed as a Director on 3 March 2023 and A Callison resigned as a Director on 30 June 2023.

Going concern

After reviewing the Company's business activities, financial position, performance projections (including the impact of executing the Company's refreshed business strategy for point-of-sale financing) and available banking facilities, for at least the next 12 months from the date of signing these financial statements, the Company will be reliant on Barclays PLC to meet its liabilities as they fall due for that period. Barclays PLC has indicated its intention to continue to make available funds as needed by the Company for the period covered by the forecasts. Therefore, the Directors are satisfied that the Company has adequate access to resources to enable it to meet its obligations and to continue in operational existence for the foreseeable future.

As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on these indications, the Directors have adopted the going concern basis in preparing these financial statements.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable, relevant and reliable.
- state whether they have been prepared in accordance with UK-adopted international accounting standards.
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and;
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Financial risk management

The Company's activities are exposed to a variety of financial risks. The Company is required to follow the requirements of the Barclays Group ("the Group") risk management policies, which include specific guidelines on the management of foreign exchange, interest rate and credit risks, and advice on the use of financial instruments to manage them. The main financial risks that the Company is exposed to are outlined in note 21.

Directors third party indemnity provisions

Qualifying third party indemnity provisions were in force (as defined by section 234 of the Companies Act 2006) during the course of the financial year ended 31 December 2022 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities, including qualifying third party indemnity provisions and qualifying indemnity provisions which may occur (or have occurred) in connection with their duties, powers or office.

Environment

The Barclays Group focuses on addressing environmental issues where it is felt that there is the greatest potential to make a difference. As the global effort to tackle climate change grows, the Group is moving rapidly to take a leading role in contributing to the transition to a low-carbon economy. In March 2020, the Group set out its ambition to be a net zero bank by 2050.

To successfully fulfil against our Purpose, we must ensure that we address the needs of all our stakeholders. This includes our customers and clients, colleagues, investors and the societies in which we operate.

The longevity of our business can only be ensured if we help tackle the challenges of our time, such as social inequality and climate change, whilst minimising any unintended and adverse impacts of our operations and our business as a financial institution. To this end we seek to identify and understand the environmental, social and governance factors which impact our organisation and how we shape and impact the environment and society around us. We do this in the context of the financial services we provide, the geographies in which we operate and the needs of our customers and clients.

We will continue to identify new opportunities and strive to integrate our broader social and environmental impact into the way we run and govern our business and the work we do every day to help customers and clients, colleagues and society.

In recent years, our approach to ESG issues has evolved in response to a dynamic external environment, increasing investor and other stakeholder attention and continued innovation in our business and product offerings. Completion of the Company's refreshed business strategy for point-of-sale financing will provide an opportunity to review that approach once again.

The CFSL Board is satisfied that there are no business specific ESG related actions required beyond those it supports at a Group level.

Disclosure of global greenhouse gas emissions is done at a Barclays Group level with information available in the Barclays PLC Annual Report 2022, which does not form part of this report, with fuller disclosure available on the Barclays website at https://home.barclays/sustainability/addressing-climate-change/.

Engagement with customers, brokers, suppliers and others in a business relationship with the Company

Barclays aims to create sustainable value for all those we serve, through the economic cycle. In line with our commitment to serve our customers' and clients' best interests, the business has engaged with them throughout 2022 to understand how best to adapt our products and services to their evolving needs. This engagement takes place in a wide variety of ways, including regular surveys, analysis of customer complaints, and drawing on data from millions of individual transactions and personal interactions.

Barclays Group companies must effectively manage, monitor and mitigate risks in their supply chain. The Directors, via management, have regard to the need to foster business relationships with suppliers. Our suppliers act on our behalf and we expect them to make responsible decisions that take our stakeholders' needs into account in both the short and long-term. Suppliers that are assessed as having heightened risk are subject to Barclays' Supplier Control Obligations (SCOs). These suppliers are required to complete a pre-contractual questionnaire and annual self-certification which captures their adherence to the SCOs and Barclays' Third Party Code of Conduct (TPCoC). The TPCoC encourages our suppliers to adopt our approach to doing business when acting on behalf of us and details our expectations for matters including environmental management, human rights, diversity and inclusion and also for living the Barclays Values. The Company is proud to be a signatory of the Prompt Payment Code in the UK. Further information on 'Supporting our supply chain' is set out in the Barclays PLC 2022 Annual Report.

Independent auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Statement of disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

In response to The Companies (Miscellaneous Reporting) Regulations 2018, further information on stakeholder engagement can be found in the Strategic Report.

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

DocuSigned by:
Mark Newbery
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M Newbery

Director

Date: 14 August 2023

Company number: 02901725

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

Business review

The principal activity of Clydesdale Financial Services Limited is the provision of retail point-of-sale financing.

Business performance

The results of the Company show a loss before tax of £395.6m (2021: loss before tax of £103.3m) for the year:

• Operating income has decreased by £16.2m year on year to £64.8m (2021: £81.0m), primarily on account of increase in interest expense by £11.6m to £64.9m (2021: £53.3m)

• Impairment charge has increased in 2022 by £25.5m to a charge of £21.2m (2021: release £4.3m) primarily driven by an increase in underlying balances, deteriorating macro sentiment and normalisation of customer behaviour.

• Operating expenses, including conduct and litigation costs, have increased by £250.6m year on year to £439.2m (2021: £188.6m). This is driven primarily by an increase in legacy litigation & conduct charges by £254.9m to £313.0m (2021: £58.1m) offset by decrease in professional fees by £10.5m to £13.1m (2021: £23.6m)

As at 31 December 2022 the Company had total equity of £53.4m (2021: £74.1m). Due to the funding arrangements in place with a Barclays Bank PLC subsidiary (note 17), the Company has net current assets of £101.6m (2021: net current assets of £167.6m).

Net cash used in 2022 for operating activities was £333.1m (2021 net cash outflow: £110.8m) and average receivables balances have increased by £152.5m to £2,706.9m.

On the basis of their assessment of the current business model and the future outlook, the Directors consider the financial position of the Company at 31 December 2022 to be satisfactory, but will be reliant on Barclays PLC to meet its liabilities as they fall due in 2023 and beyond.

Future outlook

The Company adopts Barclays PLC's annual business and capital planning process. This involves the development of a 5 year Medium Term Plan for the Company's business which is approved by the Board. For the purposes of the Medium Term Plan, the Company produces revenue, cost and balance sheet forecasts in line with the Group's central macro-economic forecast as applicable to the Company's business. The forecasts are produced with the input of key stakeholders from across the Company and is subject to review and challenge by the Company's senior management and Board.

The revenue and cost projections have been utilised to generate a forecast of the Company's capital adequacy position over the planning horizon. The Directors are satisfied that the Company is adequately capitalised as at year end, but will be reliant on Barclays PLC to meet its liabilities as they fall due in 2023 and beyond.

Monitoring of complaints and legacy loan portfolios remains an area of focus for the Company with a steering committee regularly meeting to review progress and information on legacy conduct matters and complaints. The Company continues to review complaints about other legacy partner finance loans, including other timeshare loans, however, it is not currently possible to predict the outcome of this review or the financial impact on the Company.

Principal risks and uncertainties

The Company is exposed to internal and external risks as part of its ongoing activities. These risks are managed as part of the Company's business model.

Risks are identified and overseen in accordance with the Barclays Enterprise Risk Management Framework ("ERMF"), which supports the business in its aim to embed effective risk management and a strong risk management culture.

The ERMF governs the way in which risk is identified and managed. The ERMF is approved by the Barclays PLC board on the recommendation of the Barclays Group Chief Risk Officer and adopted throughout the Group, with minor modifications where needed.

The management of risk is then embedded into each level of the business, with all colleagues being responsible for identifying and controlling risk.

Given increasing risks associated with climate change and to support Group ambitions to be net zero by 2050, Climate Risk became a principal risk at the start of 2022.

The ERMF defines nine principal risks as:
- Credit risk
- Market risk
- Treasury and Capital risk
- Climate risk
- Operational risk
- Model risk
- Conduct risk
- Reputation risk
- Legal risk

Risk appetite defines the level of risk we are prepared to accept across the different risk types, taking into consideration varying levels of financial and operational stress.

Additionally identified material existing and emerging risks included:

- Business conditions and the general economy
- The impact of high inflation, interest rate changes and rising energy costs on individuals' financial wellbeing
- Market developments and competition in the banking and financial services industry
- Change delivery risk, including the maintenance of forward looking operational effectiveness during the execution of the Company's refreshed business strategy and the implementation of key regulatory changes, particularly changes to support the Consumer Duty

During 2022, the Barclays Group, including the Company, ran a stress test to assess its capital adequacy and resilience under a severe but plausible macroeconomic scenario. The internal stress test was informed by the Bank of England 2022 regulatory stress test featuring high and persistent inflation, rising global interest rates, a severe UK recession brought by falling household real incomes, job losses leading to a high unemployment rate, energy and cost of goods shocks, increasing corporate defaults, and severe house and real estate price shocks.

The financial risk management objectives and policies at the Company level, including the exposure to interest rate risk, liquidity risk and credit risk are set out in note 21 'Financial risks' to the accompanying financial statements. The Company also actively manages key non-financial risks, which are mainly operational risks, through its internal governance structure.

Key performance indicators

The Board of Directors monitors progress on the overall strategy by reference to the following key performance indicators:

KPI	2022	2021
Average receivables balance (in £m)	2,707	2,554
Number of customer accounts	1,910,866	1,934,560
Net interest income margin	2.31 %	3.00 %
Impairment loss rate	0.99 %	(0.17)%
Cost to income ratio	678.2 %	232.8 %
Balance Sheet Impairment Coverage	2.40 %	2.24 %

KPI definitions:-

Average receivables = Average of opening and closing balance of receivables as at year end

Net interest income margin = Net interest income / Average receivables balance

Impairment loss rate = Impairment charge for credit losses / Gross loans and advances

Cost to income ratio = Operating expenses / Total income

Balance sheet impairment coverage = Allowance for impairment / Gross loans and advances

Section 172(1) statement

The Directors have acted in a way that they considered, in good faith, would be most likely to promote the success of the Company for the benefit of its member as a whole and this section forms our section 172 disclosure, describing how, in doing so, the Directors considered the matters set out in section 172(1)(a) to (f) of the Companies Act 2006. The Directors also took into account the views and interests of a wider set of stakeholders, including but not limited to: our customers; indirect employees; other entities within the Barclays Group; our suppliers; regulators; the UK Government and non-governmental organisations; and our ultimate shareholder, Barclays PLC.

The Directors considered, amongst other matters, the following:

- the likely consequences of any decision in the long term;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company

You can find out more about who the Barclays Group's key stakeholders are, how management and/or directors of Barclays PLC engaged with them, the key issues raised and actions taken on pages 16 to 20 of the Barclays PLC Annual Report 2022 which is incorporated by reference into this statement.

Considering this broad range of interests is an important part of the way the Board makes decisions, although in balancing those different perspectives it will not always be possible to deliver everyone's desired outcome.

How does the Board engage with stakeholders?

Depending on the decision in question, the relevance of each particular stakeholder group may differ, and equally the Board adopts a variety of methods of engagement with different stakeholder groups. The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of Barclays means that stakeholder engagement often takes place at an operational level.

In addition, to ensure a more efficient and effective approach, certain stakeholder engagement is led at Barclays Group level, in particular where matters are of group-wide significance or have the potential to impact the reputation of the Barclays Group.

The Board considers and discusses information from across the organisation to help it understand the impact of the Company's operations on, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance. There has been a continued focus on the market and operating environment this year as well as developments in the UK banking industry and evolving regulatory landscape, including the FCA's new Consumer Duty. This information has been provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

As a result of these activities and the information it receives, the Board has an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

The following are some examples of how the Directors have had regard to the matters set out in sections 172 (1)(a)-(f) when discharging their section 172 duties and the effect of that on certain of the decisions taken by them.

Engagement in action

Supporting our customers, brokers, colleagues and communities through challenging times

Customers

The Board is acutely aware of how current inflationary pressures are impacting our customers' financial wellbeing. In monitoring our response to the increased cost of living, the Barclays Group is working with a wide range of stakeholders – including the FCA, the UK Government and our peers – to ensure our customers and clients are supported during these difficult times. This includes consistent, industry-wide communications, where appropriate, so that all customers and clients, irrespective of who they bank with, can know what to expect from their financial services provider.

The Board is committed to ensuring good customer outcomes, and that the FCA's new Consumer Duty – which will set clearer and higher standards of consumer protection across the Financial Services sector – is demonstrably embedded throughout the organisation. This year, the Board approved its Consumer Duty Implementation Plan, appointed a Board Director as the Company's Consumer Duty Champion, and established a monthly Steering Committee for key stakeholders, including the Consumer Duty Champion. The Board will continue to receive regular progress reports on Consumer Duty implementation in 2023 and beyond.

With good customer outcomes, high inflation and increasing interest rates in mind, the Board supported management in enhancing the business' affordability assessment. Improvements to the assessment process included the introduction of additional monitoring controls, oversight for income validation, tightening of income thresholds, and updated models that reflected base rate increases, higher inflation, and other increases as a result of increased energy costs. In December 2022, the Board confirmed its support regarding the Company's response to the rising cost of living, including its response to the FCA "Dear CEO" letter on the topic of understanding the changing pressures on customers.

Monitoring of complaints and legacy loan portfolios remains an area of focus for the Company with a steering committee regularly meeting to review progress and information on legacy conduct matters and complaints and regular progress updates provided to the Board.

Colleagues

The Board is also committed to supporting the financial health and wellbeing of colleagues. Having listened to feedback from colleagues via the bi-annual Your View surveys, including in relation to colleagues' financial and personal wellbeing in light of the rising cost of living, the Board was pleased that the Barclays Group brought forward part of the 2023 pay increase, awarding 35,000 UK-based junior colleagues £1,200 salary increase effective from August 2022, ahead of the annual salary review. In January 2023, the Barclays Group worked closely with Unite the Union to agree a 2023 UK pay deal which, combined with the August 2022 increases, brought the total average salary increase for the lowest paid colleagues up to 11%. By doing this, the Barclays Group ensured that the minimum rate of pay in the UK remained ahead of Living Wage Foundation benchmarks. Further information on the resources and support available to colleagues relating to financial wellness is available in the 2022 Barclays Fair Pay Report.

With reference to the Your View Surveys more generally, results for 2022 showed a positive trajectory in terms of colleague responses. Where categories are identified as tracking behind the rest of the Barclays Group, this informs management action for future areas requiring greater attention through leadership workshops. Key highlights for the year included: continued improvement in Mindset embedment, more colleagues in the business area believing it to be a safe environment to speak-up in, and strong improvements noted for inclusivity.

With regards to inclusivity, the Board reviewed the Company's Diversity, Equity & Inclusion plans ("DE&I") during the year, with a focus on: understanding DE&I metrics and how to improve them; education for colleagues and line managers; nurturing and supporting colleagues through targeted development; and how to convert feedback into positive action.

Communities

In June 2022, the Board approved the adoption of the Barclays Group's Modern Slavery Statement (the "Statement") for the year-ended 31 December 2021. The Statement recognises modern slavery concerns across colleagues, suppliers, corporate clients, and wider communities, with appropriate metrics to monitor and review the effectiveness of the Barclays Group's modern slavery actions. The Board is expected to approve the adoption of the Statement for the year-end 31 December 2022 in June 2023.

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

DocuSigned by:
Mark Newbery
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M Newbery
Director

Date: 14 August 2023
Company number: 02901725

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLYDESDALE FINANCIAL SERVICES LIMITED

Opinion

We have audited the financial statements of Clydesdale Financial Services Limited ("the Company") for the year ended 31 December 2022 which comprise the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cashflows and related notes, including the accounting policies in note 4.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLYDESDALE FINANCIAL SERVICES LIMITED

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and operational management including inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of revenue is straightforward with no judgement involved in the calculation, and no pressures or incentives for management to manipulate revenue have been identified.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the group-wide fraud risk management controls.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by specific individuals based on set parameters or those containing specific words which were assessed to form part of high-risk criteria.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of noncompliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment laws, regulatory capital and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing noncompliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

CLYDESDALE FINANCIAL SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLYDESDALE FINANCIAL SERVICES LIMITED

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

M. McG

Michael McGarry (Senior Statutory Auditor)

for and on behalf of
KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL

Date: 14 August 2023

CLYDESDALE FINANCIAL SERVICES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £000	2021 £000
Continuing operations			
Interest income	5	127,353	129,918
Interest expense	5	(64,942)	(53,264)
Net interest income		62,411	76,654
Net fees and commission income/(expense)	6	2,353	4,361
Other operating loss		(7)	(3)
Total income		64,757	81,012
Credit impairment release/(charge)	7	(21,167)	4,324
Net operating income		43,590	85,336
Administrative expenses	7	(126,201)	(130,443)
Litigation and conduct	7	(313,000)	(58,146)
Loss before tax		(395,611)	(103,253)
Tax credit	9	74,884	19,735
Loss for the year		(320,727)	(83,518)
Total comprehensive income		(320,727)	(83,518)

There were no other components of total comprehensive income other than the net (loss)/profit for the year.

Profit or loss for the year is derived from continuing activities. All recognised income and expenses have been reported in the income statement, hence no statement of comprehensive income has been included in the financial statements.

The accompanying notes form an integral part of the financial statements.

CLYDESDALE FINANCIAL SERVICES LIMITED
Registered number: 02901725

STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Loans and advances at amortised cost	11	1,245,741	1,183,350
Deposit with Barclays Bank PLC	11	129,838	139,525
Deferred tax assets	9	2,571	2,948
Total non-current Assets		1,378,150	1,325,823
Current assets			
Cash and cash equivalents	19	123,632	161,085
Loans and advances at amortised cost	11	1,303,285	1,232,404
Deposit with Barclays Bank PLC	11	393,731	346,696
Trade and other receivables	11	25,591	17,263
Current tax asset	11,9	75,261	19,547
Total current assets		1,921,500	1,776,995
Total assets		3,299,650	3,102,818
Liabilities			
Non-current liabilities			
Trade and other payables	13	125,414	133,159
Long-term borrowings	17	1,300,950	1,286,121
Total non-current Liabilities		1,426,364	1,419,280
Current liabilities			
Trade and other payables	13	399,689	365,734
Short-term borrowings	17	1,193,654	1,175,533
Provisions	14	226,564	68,165
Total current liabilities		1,819,907	1,609,432
Total liabilities		3,246,271	3,028,712
Net assets		53,379	74,106
Issued capital and reserves			
Share capital	18	7,100	5,100
Share premium reserve	18	496,900	198,900
Retained earnings		(450,621)	(129,894)
TOTAL EQUITY		53,379	74,106

STATEMENT OF FINANCIAL POSITION(Continued)
As at 31 DECEMBER 2022

The accompanying notes form an integral part of the financial statements.

The financial statements were approved and authorised for issue on 14 August 2023 by the Board of Directors and were signed on its behalf by:

DocuSigned by:
Mark Newbery
EB04E68CC5A645D...
M Newbery
Director

Date: 14 August 2023

Company number: 02901725

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital £000	Share premium reserve £000	Retained earnings £000	Total equity £000
At 1 January 2022	5,100	198,900	(129,894)	74,106
Loss for the year	-	-	(320,727)	(320,727)
Total comprehensive income for the year	-	-	(320,727)	(320,727)
Contributions by and distributions to owners				
Issue of share capital	2,000	298,000	-	300,000
Total contributions by and distributions to owners	2,000	298,000	-	300,000
At 31 December 2022	7,100	496,900	(450,621)	53,379

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2021	4,100	86,900	(46,376)	44,624
Loss for the year	-	-	(83,518)	(83,518)
Total comprehensive income for the year	-	-	(83,518)	(83,518)
Issue of share capital	1,000	112,000	-	113,000
Total contributions by and distributions to owners	1,000	112,000	-	113,000
At 31 December 2021	5,100	198,900	(129,894)	74,106

The accompanying notes form an integral part of the financial statements.

CLYDESDALE FINANCIAL SERVICES LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £000	2021 £000
Continuing operations			
Cash flows from operating activities			
Loss for the year		(320,727)	(83,518)
Adjustments for			
Income tax (credit) / expense	9	(74,884)	(19,735)
Change in operating assets and liabilities:			
Decrease / (increase) in loans and advances	11	(140,704)	(967)
(Decrease) in allowance for impairment		7,432	(36,046)
(Increase) / decrease in trade and other receivables		(8,328)	(619)
Increase / (decrease) in trade and other payables	13	26,210	13,950
(Decrease) / increase in provisions	14	158,399	(8,353)
Cash generated from operations		(352,602)	(135,288)
Tax refund / (paid)		19,548	24,493
Net cash (used in)/from operating activities		(333,054)	(110,795)
Deposit with Barclays Bank PLC		(37,348)	2,206
Net cash from/(used in) investing activities		(37,348)	2,206
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		2,590,422	2,003,529
Repayment of borrowed funds and debt securities		(2,554,742)	(2,017,507)
Proceeds from issued ordinary shares		300,000	113,000
Net cash used in financing activities		335,680	99,022
Net cash (decrease)/increase in cash and cash equivalents		(34,722)	(9,567)
Cash and cash equivalents at the beginning of year		158,354	167,921
Cash and cash equivalents at the end of the year	19	123,632	158,354

The accompanying notes form an integral part of the financial statements.

1. Reporting entity

These financial statements are prepared for Clydesdale Financial Services Limited, which trades under the name 'Barclays Partner Finance'.The Company is a private limited Company, domiciled and incorporated in the United Kingdom. The address of the registered office of the Company is 1 Churchill Place, LondonE14 5HP. The principal activity of the Company is point of sale financing in the Retail sector.

The Company does not hold client money or custody assets and primarily lends to individuals.

The Company is a wholly owned subsidiary of Carnegie Holdings Limited. The financial statements are prepared for the Company, in line with UK Companies Act 2006. These financial statements present information about the Company as an individual undertaking and not about its group. The only group, within which the Company is included, that presents consolidated financial statements is Barclays PLC. It prepares consolidated financial statements in accordance with UK-adopted international accounting standards.

2. Basis of preparation

The Company financial statements have been prepared in accordance with UK-adopted international accounting standards. They were authorised for issue by the Company's Board of Directors on 14 August 2023.

Details of the Company's accounting policies are provided in note 4, including changes during the year in note 2.2.

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2.1. Basis of measurement

The Company financial statements have been prepared on a going concern basis under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required or permitted under IFRS 9, as set out in the relevant accounting policies.

Going Concern

After reviewing the Company's business activities financial position, performance projections (including the impact of executing the Company's refreshed business strategy for point-of-sale financing) and available banking facilities, for at least the next 12 months from the date of signing these financial statements, the Company will be reliant on Barclays PLC to meet its liabilities as they fall due for that period. Barclays PLC has indicated its intention to continue to make available funds as needed by the Company for the period covered by the forecasts. Therefore, the Directors are satisfied that the Company has adequate access to resources to enable it to meet its obligations and to continue in operational existence for the foreseeable future.

As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on these indications, the Directors have adopted the going concern basis in preparing these financial statements.

2.2. Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2022

There are no new amended standards that have had a material impact on the Company's accounting policies.

ii) New standards, interpretations and amendments not yet effective

There are no new amended standards that are expected to have a material impact on the Company's accounting policies.

3. Functional and presentation currency

These financial statements are presented in pounds sterling, the currency of the country in which the Company is incorporated. All amounts have been rounded to the nearest thousands, unless otherwise indicated.

4. Accounting Policies

4.1 Foreign currency

.The Company applies IAS 21 The Effects of Changes in Foreign Exchange Rates. Transactions in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction. Foreign currency monetary balances are translated into Sterling at the period end exchange rates. Exchange gains and losses on such balances are taken to the income statement. Non-monetary foreign currency balances in relation to items measured in terms of historical cost are carried at historical transaction date exchange rates. Non-monetary foreign currency balances in relation to items measured at fair value are translated using the exchange rate at the date when the fair value was measured.

4.2 Interest income and expense

Interest income or expense, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Company to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities.

The Company incurs certain costs in the origination of retail loans. Such fees and costs where directly attributable and incremental to the origination of the instrument, are deferred on the balance sheet and subsequently included within the calculation of the effective interest rate. They are amortised to interest income over the period of expected life.

Fees payable are included in the effective interest calculation to the extent that they are directly attributable to issuance of a financial asset or liability. Interest income, therefore, includes the amortisation of costs relating to the origination of loans and receivables and other cash flows arising from the direct and incremental costs of issuing financial instruments.

4. Accounting Policies (continued)

4.3 Fees and commissions & other income

The Company applies IFRS 15 Revenue from Contracts with Customers. The standard established a five-step model governing revenue recognition. The five-step model requires the Company to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

The Company recognises fee and commission income as the services are provided, for example, on completion of the underlying transaction. Where the contractual arrangements also result in the Company recognising financial instruments in scope of IFRS 9, such financial instruments are initially recognised at fair value in accordance with IFRS 9 before applying the provisions of IFRS 15.

Profit/(loss) on debt sales is recognised on the difference of the proceeds of the debt sale over the net present value of the impaired loans and receivables being sold, in line with IFRS 9.

4.4 Taxation

Income tax payable on taxable profits ('current tax'), is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current year or prior year taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences except from the initial recognition of goodwill. Deferred tax is not recognised where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously with the same tax authority.

4.5 Cash and cash equivalents for the purposes of cash flow statement

Cash comprises cash on hand and balances at central banks. Cash equivalents comprise loans and advances to banks, cash collateral balances with central banks related to payment schemes and treasury and other eligible bills, all with original maturities of three months or less. Investments in debt securities at amortised cost, presented within loans and advances on the balance sheet, are deemed to be investing activities for the purposes of the cash flow statement, except those instruments considered to be cash equivalents.

4.6 Financial assets and liabilities

The Company applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

4. Accounting Policies (continued)

4.6 Financial assets and liabilities (continued)

Recognition

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

Derecognition

The Company derecognises a financial asset, or a portion of a financial asset, from its balance sheet where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms – generally a difference of 10% or more in the present value of the cash flows or a substantive qualitative amendment – is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Transactions in which the Company transfers assets and liabilities, portions of them, or financial risks associated with them can be complex and it may not be obvious whether substantially all of the risks and rewards have been transferred. It is often necessary to perform a quantitative analysis. Such an analysis compares the Company's exposure to variability in asset cash flows before the transfer with its retained exposure after the transfer.

A cash flow analysis of this nature may require judgement. In particular, it is necessary to estimate the asset's expected future cash flows as well as potential variability around this expectation. The method of estimating expected future cash flows depends on the nature of the asset, with market and market implied data used to the greatest extent possible. The potential variability around this expectation is typically determined by stressing underlying parameters to create reasonable alternative upside and downside scenarios. Probabilities are then assigned to each scenario. Stressed parameters may include default rates, loss severity, or prepayment rates.

Classification and measurement

Financial assets are classified on the basis of two criteria:

i) the business model within which financial assets are managed; and

ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

The Company assesses the business model criteria at a portfolio level. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

4. Accounting Policies (continued)

4.6 Financial assets and liabilities (continued)

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Financial assets and liabilities measured at amortised cost

For financial assets and liabilities which are held at amortised cost the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability. Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Financial liabilities are held at amortised cost except for those held for trading or designated at fair value through profit and loss.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election on initial recognition for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and the impairment requirements of IFRS 9 do not apply. Financial liabilities are held at amortised cost except for those held for trading or designated at fair value.

Accounting for the impairment of financial assets

The Company is required to recognise expected credit losses (ECLs) based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, loan commitments and financial guarantee contracts.

At the reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 month (Stage 1) ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognised for the lifetime ECLs.

The measurement of ECL is calculated using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD).

The 12 month and lifetime ECLs are calculated by multiplying the respective PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

4. Accounting Policies (continued)

4.6 Financial assets and liabilities (continued)

Determining a significant increase in credit risk since initial recognition:

The Company assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. The credit risk of an exposure is considered to have significantly increased when:

(i) Quantitative test

The annualised lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. PD deterioration thresholds are defined as percentage increases, and are set at an origination score band and segment level to ensure the test appropriately captures significant increases in credit risk at all risk levels. Generally, thresholds are inversely correlated to the origination PD, i.e. as the origination PD increases, the threshold value reduces.

The assessment of the point at which a PD increase is deemed 'significant', is based upon analysis of the portfolios' risk profile against a common set of principles and performance metrics, incorporating expert credit judgement where appropriate. Application of quantitative PD floors does not represent the use of the low credit risk exemption as exposures can separately move into stage 2 via the qualitative route described below.

Retail assets apply bespoke relative increase and absolute PD thresholds based on product type and origination PD. Thresholds are subject to maximums defined by Barclays Group policy including absolute PD floor maximum of 0.3% and maximum relative PD increase of 400% (applied to strongest credit quality customers only).

For existing/historical exposures where origination point scores or data are no longer available or do not represent a comparable estimate of lifetime PD, a proxy origination score is defined, based upon:

- back-population of the approved lifetime PD score either to origination date or, where this is not feasible, as far back as possible (subject to a data start point no later than 1 January 2015), or

- use of available historical account performance data and other customer information, to derive a comparable 'proxy' estimation of origination PD.

ii) *Qualitative test*

This is relevant for accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring. High risk customers may not be in arrears but either through an event or an observed behaviour exhibit credit distress. The definition and assessment of high risk includes as wide a range of information as reasonably available, including industry and Group wide customer level data wherever possible or relevant. Whilst the high risk populations applied for IFRS 9 impairment purposes are aligned with risk management processes, they are also regularly reviewed and validated to ensure that they capture any incremental segments where there is evidence of credit deterioration.

iii) *Backstop criteria*

This is relevant for accounts that are more than 30 calendar days past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into Stage 2.

The criteria for determining a significant increase in credit risk for assets with bullet repayments follows the same principle as all other assets, i.e. quantitative, qualitative and backstop tests are all applied.

4. Accounting Policies (continued)

4.6 Financial assets and liabilities (continued)

Exposures will move back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. This means that, at minimum all payments must be up-to-date, the PD deterioration test is no longer met, the account is no longer classified as high risk, and the customer has evidenced an ability to maintain future payments.

Exposures are only removed from Stage 3 and re-assigned to Stage 2 once the original default trigger event no longer applies. Exposures being removed from Stage 3 must no longer qualify as credit impaired, and:

a) the obligor will also have demonstrated consistently good payment behaviour over a 12-month period, by making all consecutive contractual payments due and, for forborne exposures, the relevant EBA defined probationary period has also been successfully completed or;

b) (for non-forborne exposures) the performance conditions are defined and approved within an appropriately sanctioned restructure plan, including 12 months' payment history have been met.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Forward-looking information

The measurement of ECL involves complexity and judgement, including estimation of PD, LGD, a range of unbiased future economic scenarios, estimation of expected lives (where contractual life is not appropriate), and estimation of EAD and assessing significant increases in credit risk.

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate (EIR). ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions.

The Company uses a five-scenario model to calculate ECL. An external consensus forecast is assembled from key sources, including HM Treasury (short and medium term forecasts), Bloomberg (based on median of economic forecasters) and the Urban Land Institute, which forms the baseline scenario. In addition, two adverse scenarios (Downside 1 and Downside 2) and two favourable scenarios (Upside 1 and Upside 2) are derived, with associated probability weightings. The adverse scenarios are calibrated to a similar severity to internal stress tests, whilst also considering IFRS 9 specific sensitivities and non-linearity. Downside 2 is benchmarked to the Bank of England's annual cyclical scenarios and to the most severe scenario from Moody's inventory, but is not designed to be the same. The favourable scenarios are calibrated to be symmetric to the adverse scenarios, subject to a ceiling calibrated to relevant recent favourable benchmark scenarios. The scenarios include four economic variables, (GDP, unemployment, House Price Index (HPI) and base rate in the UK market), and expanded variables using statistical models based on historical correlations. The upside and downside shocks are designed to evolve over a five-year stress horizon, with all five scenarios converging to a steady state after approximately eight years.

The methodology for estimating probability weights for each of the scenarios involves a comparison of the distribution of key historical UK macroeconomic variables against the forecast paths of the five scenarios. The methodology works such that the baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the baseline; the further from the baseline, the smaller the weight. A single set of five scenarios is used across all portfolios and all five weights are normalised to equate to 100%. The same scenarios and weights that are used in the estimation of expected credit losses are also used for the Barclays Group internal planning purposes.

4. Accounting Policies (continued)

4.6 Financial assets and liabilities (continued)

Credit impaired assets, write-offs, and interest income recognition

An asset is considered credit impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset. This comprises assets defined as defaulted and other individually assessed exposures where imminent default or actual loss is identified. When exposures are identified as credit impaired or purchased or originated as such interest income is calculated on the carrying value net of the impairment allowance.

Uncollectible loans are written off against the related allowance for loan impairment on completion of the Company's internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement. The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery.

Loan modifications and renegotiations that are not credit-impaired

When modification of a loan agreement occurs as a result of commercial restructuring activity rather than due to the credit risk of the borrower, an assessment must be performed to determine whether the terms of the new agreement are substantially different from the terms of the existing agreement. This assessment considers both the change in cash flows arising from the modified terms as well as the change in overall instrument risk profile.

Where terms are substantially different, the existing loan will be derecognised and new loan recognised at fair value, with any difference in valuation recognised immediately within the income statement, subject to observability criteria.

Where terms are not substantially different, the loan carrying value will be adjusted to reflect the present value of modified cash flows discounted at the original EIR, with any resulting gain or loss recognised immediately within the income statement as a modification gain or loss.

Expected life

Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. Potential future modifications of contracts are not taken into account when determining the expected life or EAD until they occur.

Discounting

ECLs are discounted at the EIR at initial recognition or an approximation thereof and consistent with income recognition.

Modelling techniques

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original EIR. The regulatory Basel Committee of Banking Supervisors (BCBS) ECL calculations are leveraged for IFRS 9 modelling but adjusted for key differences which include:

4. Accounting Policies (continued)

4.6 Financial assets and liabilities (continued)

•BCBS requires 12 month through the economic cycle losses whereas IFRS 9 requires 12 months or lifetime point in time losses based on conditions at the reporting date and multiple forecasts of the future economic conditions over the expected lives;

•IFRS 9 models do not include certain conservative BCBS model floors and downturn assessments and require discounting to the reporting date at the original EIR rather than using the cost of capital to the date of default;

•Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process, for example forecast economic scenarios for uncertain political events; and

•ECL is measured at the individual financial instrument level, however a collective approach where financial instruments with similar risk characteristics are grouped together, with apportionment to individual financial instruments, is used where effects can only be seen at a collective level, for example for forward-looking information.

Modelling techniques

For the IFRS 9 impairment assessment, the Company's risk models are used to determine the PD, LGD and EAD. For Stage 2 and 3, the Company applies lifetime PDs but uses 12 month PDs for Stage 1. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, among other credit factors. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

Forbearance

A financial asset is subject to forbearance when it is modified due to the credit distress of the borrower. A modification made to the terms of an asset due to forbearance will typically be assessed as a nonsubstantial modification that does not result in derecognition of the original loan, except in circumstances where debt is exchanged for equity.

Both performing and non-performing forbearance assets are classified as Stage 3 except where it is established that the concession granted has not resulted in diminished financial obligation and that no other regulatory definitions of default criteria has been triggered, in which case the asset is classified as

Stage 2. The minimum probationary period for non-performing forbearance is 12 months and for performing forbearance, 24 months. Hence, a minimum of 36 months is required for non-performing forbearance to move out of a forborne state.

No financial instrument in forbearance can transfer back to Stage 1 until all of the Stage 2 thresholds are no longer met and can only move out of Stage 3 when no longer credit impaired.

4. Accounting Policies (continued)

4.7 Leases

As lessor

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are included within property, plant and equipment on the Company's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate

4.8 Provisions

Provisions are recognised for present obligations (legal or constructive) arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and these can be reliably estimated.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Company has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

4.9 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 uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the likelihood of an outflow of economic resources is remote.

4.10 Share capital and dividends

Share issue costs

Incremental costs directly attributable to the issue of new shares or options or the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Company's shareholders.

4. Accounting Policies (continued)

4.11 Critical accounting estimates

The preparation of financial statements in accordance with UK-adopted international accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial statements are highlighted under the relevant note.

Certain estimates in the financial statements are based wholly or in part on estimates or assumptions made by the Directors. There is, therefore, a potential risk that they may be subject to change in future periods. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements, such as the assessment of provisions (note 14) and the impairment on loans and receivables (note 21(a)).

Interest income on loans and advances at amortised cost is calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities. The effective interest method requires the Company to estimate future cash flows based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets.

The Company derives certain fees and incurs certain costs in the origination of loan products. Such fees and costs where directly attributable and incremental to the origination of the instrument, are deferred on the balance sheet and subsequently included within the calculation of the effective interest rate. They are amortised to interest income over the period of expected life.

There is judgement involved in application of the effective interest rate (EIR) method for loans measured at amortised cost. Application of the EIR method adjusts the timing and amount of interest recognition, with qualifying revenue and expenses deferred and recognised through the life of the instrument as well as the deferred or accelerated recognition of interest where instruments have contractually specified decreases or increases in the calculation of interest.

5. Interest income and expense

	2022	2021
	£000	£000
Interest Income		
Loans and other receivables	125,359	126,309
Finance Leases	1,994	3,609
Total Interest Income	127,353	129,918
Interest expense		
Unsecured and other retail loans	48,526	51,561
Finance leases (interest portion)	486	1,122
Other interest payable	15,930	581
Total interest expense	64,942	53,264
Net interest income recognised in profit or loss	62,411	76,654

Interest expense relates to interest payable on related party borrowings and failed sale liability included under trade and other payables.

6. Fees and commission & other operating income

Other operating income comprises the following:

	2022 £000	2021 £000
Fees and commission income	4,464	6,093
Fees and commission expense	(2,111)	(1,732)
Net fees and commissions	2,353	4,361
Other operating income/(loss)	(7)	(3)
Total other operating income	2,346	4,358

Fees and commission income has decreased by £1.6m to £4.5m (2021: £6.1m) primarily driven by decline in servicing fees due to decrease in motor portfolio.

7. (Loss)/Profit before tax

The following items have been charged in arriving at (loss)/profit from operations:

	2022 £000	2021 £000
Credit impairment charge/(release)	21,167	(4,324)
Head office and other related party charges	102,780	97,602
Litigation and conduct	313,000	58,146
Professional fees	13,148	23,604
Fraud write off costs	762	1,001
Marketing	1,363	1,282
Restructuring costs	-	21
Other operating expenses	8,150	6,933
Total	460,370	184,265

Head office and other related party recharges relate to; payroll and pension costs, non-cancellable operating lease costs paid on behalf of the Company, central support costs, and a management charge for hedging the Company's loans and advances exposure (note 21).

The auditor's remuneration of £0.3m for the 2022 year end (2021: £0.2m) was borne by Barclays Bank UK PLC and not recharged to the Company.

8. Employee and key management (including Directors) comprise:

The Company had no direct employees during 2022 (2021: nil). All Staff providing services to the Company are contracted from Barclays Execution Services Limited (previously Barclays Services Limited) or Barclays Bank UK PLC during 2022 and 2021 (previously Barclays Bank PLC). These costs are included in the Head office recharges above.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including the Directors of the Company listed on page 2, and the Financial Controller of the Company.

Disclosures of Directors' remuneration as required by the Companies Act, 2006 are as follows:

	2022	2021
	£000	£000
Aggregate remuneration in respect of qualifying services	715	313
Aggregate contributions due to Barclays Group pension schemes	33	-
Total	748	313

Four Directors are accruing retirement benefits under a defined benefit scheme or defined contribution scheme (2021: three).

During the year 2022, no Director has exercised options (2021: nil) under the Barclays PLC Sharesave Scheme and Long term incentives scheme.

Four Directors are entitled to benefits under the Share Value Plan (2021: three).

9. Tax expense

9.1 Income tax recognised in profit or loss

	2022	2021
	£000	£000
Current tax		
Current tax on profits for the year	(75,255)	(19,773)
Adjustments in respect of prior years	(6)	226
Total current tax	(75,261)	(19,547)
Deferred tax expense		
Current year	381	402
Rate change adjustment	(4)	(590)
Total deferred tax	377	(188)
Tax expense	(74,884)	(19,735)

9. Tax expense (continued)

9.1 Income tax recognised in profit or loss (continued)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2022	2021
	£000	£000
Loss for the year	(320,727)	(83,518)
Income tax credit	(74,884)	(19,735)
Loss before income taxes	(395,611)	(103,253)
Tax using the Company's domestic tax rate of 19% (2021:19%)	(75,166)	(19,618)
Adjustment for prior years	(6)	226
Rate change adjustment	(4)	(590)
Thin cap adjustment	292	247
Total tax expense	(74,884)	(19,735)

Changes in tax rates and factors affecting the future tax charges.

The UK corporation tax rate of 19% has been used to calculate current tax balances for the year ended 31 December 2022.
Legislation has been introduced to increase the main rate of corporation tax from 19% to 25%, effective from 1 April 2023, which was substantively enacted on 24 May 2021. Deferred tax balances at 31 December 2022 have been remeasured at the tax rate to be applied when temporary differences are expected to reverse.

9.2 Current tax assets and liabilities

	2022	2021
Current tax assets	£000	£000
UK corporation tax - Group relief receivable	75,261	19,547

9.3 Deferred tax balances

The following is the analysis of deferred tax assets presented in the statement of financial position:

	2022	2021
	£000	£000
Deferred tax assets	2,571	2,948

10. Dividends

No dividend has been paid during the year (2021: nil).

11. Loans and other receivables

	2022 £000	2021 £000
Gross loans and advances to customers	2,611,757	2,471,053
Less: impairment	(62,731)	(55,299)
Loans and advances to customers at amortised cost	2,549,026	2,415,754
Other receivables	32,131	22,108
Less: impairment	(7,402)	(7,049)
Other receivables - net	24,729	15,059
Deposit with Barclays Bank PLC	523,569	486,221
Receivables from related parties	-	2
Prepayments and accrued income	863	2,202
UK Corporation tax - Group relief receivable	75,261	19,547
Total	3,173,448	2,938,785
Less: current portion - loans and advances to customers at amortised cost	(1,303,285)	(1,232,404)
Less: current portion - other receivables net of impairment	(24,729)	(15,059)
Less: current portion - deposit with Barclays Bank PLC	(393,731)	(346,696)
Less: current portion - receivables from related parties	-	(2)
Less: current portion - prepayments and accrued income	(863)	(2,202)
Less: current portion - UK corporation tax - Group relief receivable	(75,261)	(19,547)
Total current portion	(1,797,869)	(1,615,910)
Total non-current portion	1,375,579	1,322,875

The Company carries the remaining balances of conditional sale loans to customers for the purchase of motor vehicles, which meet the definition of finance leases (note 12). Gross loans and advances to customers for conditional sale motor loans totalled £25.9m (2021: 52.6m), and the allowance for impairment totalled £1.2m (2021: £1.0m).

The loans and advances at amortised cost by product are detailed in note 21(a)

The carrying value of the deposit with Barclays Bank PLC stands at £523.6m (2021: £486.2m), largely received as part of retail securitisation which took place in December 2020 and other deposits placed during the year.

Other receivables as at year-end was £32.1m (2021: £22.1m), and the allowance for impairment totalled £7.4m (2021: £7.0m)

The fair value of the Company's loans is set out in note 20. The specific risks to which the Company is exposed in relation to these balances are discussed further in note 21. Related party transactions are set out in note 22.

12. Finance lease receivables

	Gross investment in finance lease receivables	Future finance income	Present value of minimum lease payments receivable
	£000	£000	£000
2022			
Not more than one year	14,127	(897)	13,230
Over one year but not more than two years	9,362	(595)	8,767
More than two years but not more than five years	3,570	(227)	3,343
Over five years	571	(36)	535
Finance Leases (Secured Motor)	**27,630**	**(1,755)**	**25,875**
2021			
Not more than one year	29,416	(2,565)	26,851
Over one year but not more than two years	18,564	(1,619)	16,945
More than two years but not more than five years	8,861	(773)	8,088
Over five years	820	(71)	749
Finance Leases (Secured Motor)	**57,661**	**(5,028)**	**52,633**

The Company carries remaining balance of conditional sale motor loans to customers, where legal title is retained by the Company until the loan is repaid by the customer, which meet the definition of finance leases. The estimated fair value of collateral held in respect of these conditional sale loans is disclosed in note 21 (a) (iv).

The allowance for uncollectible finance lease receivables or impairment amounts to £1.2m (2021:£1.0m).

13. Trade and other payables

	2022	2021
	£000	£000
Trade payables	487,737	21,219
Amount due to related parties	29,181	470,632
Accruals	8,185	7,042
Total trade and other payables	525,103	498,893
Less: current portion - trade payables	(362,395)	(21,219)
Less: current portion - amount due to related parties	(29,109)	(337,473)
Less: current portion - accruals	(8,185)	(7,042)
Total current portion	(399,689)	(365,734)
Total non-current portion	125,414	133,159

Balance due to related parties and related expenses are covered in notes 7 and 22 in detail.

Trade and other payables include failed sale liability held at amortised cost. The carrying value the liability at year-end was £459.2m (2021: £455.6m). The transaction did not meet the IFRS9 derecognition criteria, therefore the loans remain on the balance sheet and a corresponding liability has been recognised for future cashflows payable to a fellow subsidiary.

The carrying value of trade and other payables, classified as financial liabilities measured at amortised cost, approximates fair value.

14. Provisions

Movements in the Company's provisions in the year were as follows:

	Customer Redress	Litigation	Financial guarantees	Total
	£000	£000	£000	£000
At 1 January 2022	46,416	16,679	5,070	68,165
Additions	306,600	2,800	-	309,400
Amounts used	(127,921)	(15,869)	-	(143,789)
Unused amounts reversed	(2,600)	-	(4,612)	(7,212)
At 31 December 2022	222,495	3,610	458	226,564

Customer redress and legal & regulatory matters

Customer redress and legal and regulatory matters provisions comprise respectively the estimated cost of making redress payments to customers, clients and counterparties for losses or damages associated with the execution of our business activities and provisions for on-going legal matters in which the Company is engaged.

14. Provisions (continued)

The customer redress and litigation provision of £226m is comprised of the 3 categories of provision detailed below:

Affordability Review

Following a FCA initiated skilled person review a provision was recognised in 2021, of which £8.5m remained at the end of 2022, for the customer redress costs resulting from a review of the Company's general policies and procedures for assessing affordability and oversight of brokers.

Remediation has progressed during 2022 with the finalisation of the remediation principles designed for the issues identified in the review. The majority of remediation is expected to complete in 2023. The expected response rate from customers which will be proactively contacted by the Company reflects past experience with other remediation programmes. A 5% increase or decrease in the response rate would have a financial impact of £0.2m.

Consumer Credit Act - Acts or Omissions by Retailers

£199m of the customer redress and litigation provision relates to liabilities to redress customers, that have arisen as a result of customer complaints and claims under the Consumer Credit Act (CCA), resulting from acts or omissions by retailers who brokered the Company's loans. The additions to the provision in the year primarily cover Azure Services Limited (ASL), timeshare and a number of other CCA provisions. The remediation of the ASL loans, is well progressed and the provision is paying down in line with expectation with no individual variables demonstrating material volatility.The most material item is a new provision of £86m that was raised in 2022 for a population of timeshare loans. The material provisions comprising £121m of the £199m have the following sensitivities:

- 5% increase or decrease in response rate is £13.2m
- 5% increase or decrease in uphold rate is £3.2m

Consumer Credit Act – Company's Obligations

There are additional customer redress provisions for £18.1m liabilities required to redress customers in respect of other associated matters arising from the Company's obligations under the CCA. Forward fixes have been put in place to stop the population of customers increasing.

Customer redress provisions have been estimated using variables such as assumed customer response rates, size of average redress payments and expected levels of future complaints, and are therefore subject to change. The current provision represents the Company's best estimate of all future expected costs of customer redress based on the information available at the balance sheet date.

The provisions on the balance sheet are sensitive to movements in the underlying assumptions and, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter or matters will not be material to the Company's results of operations or cash flow for a particular period, depending on, amongst other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

The Company has received a number of threats of litigation and litigation claims from customers in respect of the terms of historic lending, in addition to complaints. The Company is defending those claims and does not anticipate any loss at this stage.

Undrawn financial guarantees

Impairment allowance under IFRS 9 considers both the drawn and the undrawn counterparty exposure. For Retail portfolios, the total impairment allowance is allocated to the drawn exposure to the extent that the allowance does not exceed the exposure as ECL is not reported separately. Any excess is reported on the liability side of the balance sheet as a provision.

15. Contingent liabilities and commitments

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

The Company is subject to legal and regulatory proceedings (Note 16 Legal and Regulatory Matters), alongside customer complaints, which arise in the ordinary course of business from time to time. The recognition of provisions in relation to such matters involves critical accounting estimates and judgments in accordance with the relevant accounting policies as described in note 4.8, Accounting policies - Provisions. Where the likelihood of outflow of resources is probable these have been provided for in the financial statements (Note 14 Provisions).

We have not disclosed an estimate of the potential financial impact or effect on the Company of contingent liabilities in respect of certain legal proceedings and customer complaints, where it is not currently practicable to do so.

At the present time, the Company is not in a position to comment if the ultimate resolution of any of these matters above will have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter or matters (including formerly active matters or those matters arising after the date of this note) will not be material to the Company's results, operations or cash flow for a particular period, depending on, among other things, the amount of the loss resulting from the matter(s) and the amount of profit otherwise reported for the reporting period.

The following table summarises the nominal principal amount of contingent liabilities and commitments which are not recorded on-balance sheet:

	2022	2021
	£000	£000
Financial guarantees & loan commitments	505,300	121,540
Total contingent liabilities and commitments	505,300	121,540

Contingent liabilities and commitments include undrawn commitment towards Amazon (2022 £504.4m, 2021 £94.9m) and financial guarantee related to the commitment provided by the Company on the securitised Motor loans, where in the event of customer default the Company will be liable to pass over the value of any commissions that should be clawed back from Motor clients to the buyer of loans (2022 £0.9m, 2021 £26.6m). Movement in the undrawn balance relates to increase in the number of Amazon customers, while movement in the financial guarantee relates to decrease in the forecasted clawbacks.

16. Legal and regulatory matters

The Company faces legal, competition and regulatory challenges, many of which are beyond our control. The extent of the impact of these matters cannot always be predicted but may materially impact our operations, financial results, condition and prospects. Matters arising from a set of similar circumstances can give rise to either a contingent liability or a provision, or both, depending on the relevant facts and circumstances. The recognition of provisions in relation to such matters involves critical accounting estimates and judgements in accordance with the relevant accounting policies as described in note 4.8, Accounting policies - Provisions. We have not disclosed an estimate of the potential financial impact or effect on the Company of contingent liabilities where it is not currently practicable to do so.

The Company, which trades as Barclays Partner Finance and houses Barclays' point-of-sale finance business, was required by the FCA to undertake a skilled person review in 2020 following concerns about historic affordability assessments for certain loans to customers in connection with timeshare purchases. The skilled person review was concluded in 2021. The Company complied fully with the skilled person review requirements, including carrying out certain remediation measures. The Company was not required to conduct a full back book review. Instead, the Company reviewed limited historic lending to ascertain whether its practices caused customer harm and is remediating any examples of harm. This work is expected to be completed during 2023, utilising provisions booked in previous reporting periods to account for any remediation, and the matter is otherwise concluded.

The Company continues to review complaints about other legacy partner finance loans and notes the outcome of the judicial review proceedings in respect of a FOS decision which has provided helpful clarity in consideration of the Company's obligations. The Company is working with the FOS to resolve any outstanding complaints in relation to this matter.

General

The Company is engaged in various other legal, competition and regulatory matters. It is subject to legal proceedings brought by and against the Company which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, debt collection, consumer credit, and other statutory and common law issues. The Company is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures and compliance with legislation and regulation. The Company is cooperating with the relevant authorities and keeping all relevant agencies briefed as appropriate in relation to these matters and others described in this note on an ongoing basis. At the present time, the Company does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters and the matters specifically described in this note, there can be no assurance that the outcome of a particular matter or matters (including formerly active matters or those matters arising after the date of this note) will not be material to the Company's results, operations or cash flow for a particular period, depending on, among other things, the amount of the loss resulting from the matter(s) and the amount of profit otherwise reported for the reporting period.

17. Related party borrowings

An analysis of the Company's borrowings is as follows:

	2022	2021
	£000	£000
Non-current		
Term loan	1,140,950	1,126,121
Subordinated debt	160,000	160,000
Total non-current borrowings	1,300,950	1,286,121
Current		
Bank overdraft	-	2,730
Term loan	1,193,654	1,172,803
Total current borrowings	1,193,654	1,175,533
Total loans and borrowings	2,494,604	2,461,654

The Company receives the majority of its funding from Barclays Bank PLC Group subsidiaries, on which interest is paid.

The loan instruments with Barclays Bank PLC Group subsidiaries as lender have fixed and floating coupons. The Company has an uncommitted and unlimited term loan facility.

The fair value of borrowings is set out in note 20.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

18. Share capital

	2022 Number	2022 £000	2021 Number	2021 £000
Shares treated as equity				
Ordinary Shares shares of £1.00 each	7,100,000	7,100	5,100,000	5,100
At 31 December	7,100,000	7,100	5,100,000	5,100

Issued and fully paid

	2022 Number	2022 £000	2021 Number	2021 £000
Ordinary Shares shares of £1.00 each				
At 1 January	5,100,000	5,100	4,100,000	4,100
Shares issued	2,000,000	2,000	1,000,000	1,000
At 31 December	7,100,000	7,100	5,100,000	5,100

The par value ordinary share is £1 each. All issued shares are fully paid.

The equity position of £53.4m for the year ended 31 December 2022 includes the issuance of 1,000,000 fully paid ordinary shares of £1.0 each at a premium of £249 per share, and another 1,000,000 fully paid ordinary shares of £1.0 each at a premium of £49 per share.

19. Cash and cash equivalents

	2022 £000	2021 £000
Cash at bank available on demand	123,632	161,084
Cash and cash equivalents in the statement of financial position	123,632	161,084
Repayable on demand	-	(2,730)
Cash and cash equivalents in the statement of cash flows	123,632	158,354

20. Fair value measurement

The fair value of an asset or liability 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 measurement date. As a wide range of valuation techniques are available, it may not be appropriate to directly compare this fair value information to independent market sources or other financial institutions.

The following tables summarise the fair value of financial assets and liabilities measured at amortised cost on the Company's statement of financial position where the carrying amount is not a reasonable approximation of fair value:

	2022	2022	2021	2021
	£000	£000	£000	£000
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Loans and advances	2,549,026	2,552,440	2,415,754	2,285,797
Trade and other receivables	25,591	25,591	17,263	17,263
Deposit with Barclays Bank PLC	523,569	523,569	486,221	486,221
Cash and cash equivalents	123,632	123,632	161,085	161,085
Total financial assets	3,221,818	3,225,232	3,080,323	2,950,366
Financial liabilities				
Borrowings	2,494,604	2,494,604	2,461,654	2,461,654
Trade and other payables	525,103	525,103	498,893	498,893
Total financial liabilities	3,019,707	3,019,707	2,960,547	2,960,547

The following table shows the Company's financial assets and liabilities by fair value hierarchy and statement of financial position classification:

2022	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Loans and advances at amortised cost	2,552,440	-	-	2,552,440

2021	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Loans and advances at amortised cost	2,285,797	-	-	2,285,797

Different valuation methodologies and assumptions can have a significant impact on fair values which are based on unobservable inputs.

Financial assets

The carrying value of financial assets held at amortised cost is determined in accordance with the accounting policy section.

Loans and advances to customers

The fair value of loans and advances, for the purpose of this disclosure, is derived from discounting expected cash flows in a way that reflects the current market price for lending to issuers of similar credit quality. Where market data or credit information on the underlying borrowers is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rates.

The carrying value approximates the fair value for other financial assets and liabilities, since they are short-term in duration or variable rate in nature.

Valuation methodology

A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is described below.

Quoted market prices - Level 1

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs - Level 2

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. Level 2 valuation techniques can also include unobservable inputs that are not significant of the fair value measurement in its entirety.

Valuation technique using significant unobservable inputs - Level 3

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

21. Financial risks

The Company's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk, (which includes foreign currency risk, interest rate risk and price risk). Consequently, the Company devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business.

The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company.

The Company assesses all counterparties, including its customers, for credit risk before contracting with them and carries out subsequent monitoring of credit risk. IFRS 9 model is the main authority for measuring credit risk using the 3 stages. The Company's exposure to expected credit losses is subject to financial limits. There are no significant concentrations of credit risk to individual counterparties.

Collateral can be an important mitigant of credit risk and the Company commonly obtains security for the funds advanced. When collateral is deemed appropriate, the Company takes specific, agreed classes of collateral. Alternatively, the Company may put in place other forms of credit risk mitigation, such as the use of credit derivatives. The principal collateral types used by the Company relates to its conditional sale Motor lending products.

In compliance with IFRS 7.35b, the Company discloses in the following section information relating to the credit risk management practices and how they relate to the recognition and measurement of expected credit losses. The information will help users of the accounts to understand the changes in the amount of expected credit losses and the reasons for those changes.

CLYDESDALE FINANCIAL SERVICES LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2022

(i) Loans and advances at amortised cost by product

The table below presents a breakdown of loans and advances at amortised cost and the impairment allowance with stage allocation by asset classification.

At 31 December	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	2022	2022	2022	2022	2021	2021	2021	2021
Gross exposure	£000	£000	£000	£000	£000	£000	£000	£000
Loans and Advances at amortised cost	2,529,037	49,149	33,571	2,611,757	2,378,469	59,016	33,569	2,471,054
Impairment allowance	£000	£000	£000	£000	£000	£000	£000	£000
Loans and Advances at amortised cost	(21,750)	(13,962)	(27,019)	(62,731)	(17,252)	(12,842)	(25,206)	(55,300)
Net exposure	£000	£000	£000	£000	£000	£000	£000	£000
Loans and Advances at amortised cost	2,507,287	35,187	6,552	2,549,026	2,361,217	46,174	8,363	2,415,754
Coverage ratio	%	%	%	%	%	%	%	%
Loans and Advances at amortised cost	0.9	28.4	80.5	2.4	0.7	21.8	75.1	2.2

(ii) Movement in gross exposure and impairment allowance including provisions for loan commitments

The following table presents a reconciliation of the opening to the closing balance of the exposure and impairment allowance. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included within the accounting policy 4.6 Financial assets and liabilities.

	Stage 1 2022	Stage 2 2022	Stage 3 2022	Total 2022	Stage 1 2021	Stage 2 2021	Stage 3 2021	Total 2021
Gross exposure	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January	2,378,468	59,017	33,570	2,471,055	2,275,183	146,824	48,079	2,470,086
Transfers from Stage 1 to Stage 2	(48,074)	48,074	-	-	(33,340)	33,340	-	-
Transfers from Stage 2 to Stage 1	31,198	(31,198)	-	-	83,341	(83,341)	-	-
Transfers to Stage 3	(13,025)	(8,399)	21,424	-	(13,478)	(10,248)	23,726	-
New financial assets originated or purchased	1,401,800	17,716	5,023	1,424,539	1,226,616	9,705	2,391	1,238,712
Net drawdowns/ repayments/ risk parameter changes & other movements	(1,221,330)	(36,061)	(8,269)	(1,265,660)	(1,159,854)	(37,264)	(8,480)	(1,205,598)
Asset derecognised due to write offs	-	-	(18,177)	(18,177)	-	-	(32,146)	(32,146)
At 31 December	2,529,037	49,149	33,571	2,611,757	2,378,468	59,017	33,570	2,471,055

(ii) Movement in gross exposure and impairment allowance including provisions for loan commitments (continued)

	Stage 1 2022	Stage 2 2022	Stage 3 2022	Total 2022	Stage 1 2021	Stage 2 2021	Stage 3 2021	Total 2021
ECL	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January	(17,252)	(12,841)	(25,206)	(55,299)	(20,975)	(30,579)	(39,791)	(91,345)
Transfers from Stage 1 to Stage 2	1,929	(1,929)	-	-	789	(789)	-	-
Transfers from Stage 2 to Stage 1	(6,603)	6,603	-	-	(15,827)	15,827	-	-
Transfers to Stage 3	608	4,946	(5,554)	-	312	2,115	(2,427)	-
Net measurement of ECL arising from transfer of stage	618	(613)	(124)	(119)	3,550	(748)	(264)	2,538
New financial assets originated or purchased	(15,118)	(5,826)	(3,982)	(24,926)	(11,366)	(6,213)	(1,890)	(19,469)
Net drawdowns/ repayments/ risk parameter changes & other movements	14,068	(4,303)	(10,330)	(564)	26,265	7,546	(14,304)	19,507
Asset derecognised due to write offs	-	-	18,177	18,177	-	-	33,470	33,470
At 31 December	(21,750)	(13,962)	(27,019)	(62,731)	(17,252)	(12,841)	(25,206)	(55,299)

	2022	2021
Reconciliation of ECL movements to impairment charge / (release) for the period	£000	£000
ECL movement	7,432	(36,046)
Net write-offs post recovery	18,177	33,470
Other adjustments	(4,442)	(1,748)
Income statement charge for the period	21,167	(4,324)

(iii) Credit exposure

Financial assets subject to credit risk that are neither past due nor individually impaired can be analysed according to the credit ratings used by the Company when assessing customers and counterparties. The Company uses the following credit ratings system:

Strong: There is a very high likelihood of the asset being recovered in full.

Satisfactory: Where there is a likelihood that the asset will be recovered and therefore, of no cause for concern to the Company, the asset may not be collateralised, or may relate to Retail facilities, such as credit card balances and unsecured loans, which have been classified as satisfactory, regardless of the fact that the output of internal grading models may have indicated a higher classification. At the lower end of this grade there are customers that are being more carefully monitored, for example, corporate customers which are indicating some evidence of deterioration, mortgages with a high loan to value, and unsecured Retail loans operating outside normal product guidelines.

Higher risk: There is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over the value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

CLYDESDALE FINANCIAL SERVICES LIMITED

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(iii) Credit exposure (continued)

Credit risk profile by internal PD band for loans and advances at amortised cost:

2022

Gross exposure amount	PD Range	Stage 1	Stage 2	Stage 3	Total
	%	£000	£000	£000	£000
Strong	0.0 to < 0.60	1,772,459	699	-	1,773,158
Satisfactory	0.6 to < 11.35	756,578	32,012	-	788,590
High risk	11.35 to 100	-	16,438	33,571	50,009
Total		2,529,037	49,149	33,571	2,611,757

2022

Impairment allowance	PD Range	Stage 1	Stage 2	Stage 3	Total	Coverage
	%	£000	£000	£000	£000	%
Strong	0.0 to < 0.60	3,215	2	-	3,217	0.2 %
Satisfactory	0.6 to < 11.35	18,535	5,985	-	24,520	3.1 %
High risk	11.35 to 100	-	7,975	27,019	34,994	70.0 %
Total		21,750	13,962	27,019	62,731	2.4 %

2021

Gross exposure amount	PD Range	Stage 1	Stage 2	Stage 3	Total
	%	£000	£000	£000	£000
Strong	0.0 to < 0.60	1,714,753	9,844	-	1,724,597
Satisfactory	0.6 to < 11.35	663,716	35,191	-	698,907
High risk	11.35 to 100	-	13,982	33,568	47,550
Total		2,378,469	59,017	33,568	2,471,054

2021

Impairment allowance	PD Range	Stage 1	Stage 2	Stage 3	Total	Coverage
	%	£000	£000	£000	£000	%
Strong	0.0 to < 0.60	3,205	18	-	3,223	0.2 %
Satisfactory	0.6 to < 11.35	14,045	3,853	-	17,898	2.6 %
High risk	11.35 to 100	-	8,972	25,206	34,178	71.9 %
Total		17,250	12,843	25,206	55,299	2.2 %

(iv) Maximum exposure to credit risk

Maximum exposure and effects of collateral and other credit enhancements:

	Maximum exposure	Non-cash collateral	Net exposure	Maximum exposure	Non-cash collateral	Net exposure
At 31st December	**2022**	**2022**	**2022**	**2021**	**2021**	**2021**
On balance sheet	£000	£000	£000	£000	£000	£000
Unsecured and other Retail lending	2,524,309	-	2,524,309	2,364,108	-	2,364,108
Finance leases	24,717	(22,642)	2,075	51,646	(47,051)	4,595
Total loans and advances at amortised cost	2,549,026	(22,642)	2,526,384	2,415,754	(47,051)	2,368,703
Trade and other receivables	25,591	-	25,591	17,263	-	17,263
Deposit with Barclays Bank PLC	523,569	-	523,569	486,221	-	486,221
Cash and cash equivalents	123,632	-	123,632	161,085	-	161,085
Total on-balance sheet	3,221,818	(22,642)	3,199,176	3,080,323	(47,051)	3,033,272

(v) Scenario weights

The methodology for estimating probability weights for each of the scenarios involves a comparison of the distribution of key historical UK macroeconomic variables against the forecast paths of the five scenarios. The methodology works such that the Baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the Baseline; the further from the Baseline, the smaller the weight. This is reflected in the table below where the probability weights of the scenarios as of 31 December 2022 are shown. A single set of five scenarios is used across all portfolios and all five weights are normalised to equate to 100%. The same scenarios and weights that are used in the estimation of expected credit losses are also used to inform Barclays' internal planning. The impacts across the portfolios are different because of the sensitivities of each of the portfolios to specific macroeconomic variables, for example, unsecured consumer loans are highly sensitive to unemployment.

The tables below show the macroeconomic variables for each scenario and their respective scenario weights. Macroeconomic variables are presented using the most relevant basis for each variable.

Scenario probability weighting

	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
	%	%	%	%	%
At 31 December 2022					
Scenario probability weighting	10.9	23.1	39.4	17.6	9.0
At 31 December 2021					
Scenario probability weighting	20.9	27.2	30.1	14.8	7.0

Specific bases shows the most extreme position of each variable in the context of the upside/downside scenarios, for example, the highest unemployment for downside scenarios, average unemployment for baseline scenarios and lowest unemployment for upside scenarios. GDP and HPI downside and upside scenario data represents the lowest and highest points cumulative position relative to the start point, in the 20 quarter period.

(vi) Macroeconomic variables

Scenarios used to calculate the ECL charge were refreshed in Q422 with the Baseline scenario reflecting the latest consensus macroeconomic forecasts available at the time of the scenario refresh. In the Baseline scenario, further deterioration in the UK,as inflation pressures continue to squeeze household income, along with significant monetary policy tightening, contribute to lower growth prospects. UK GDP is expected to continue falling into 2023. Slight increases in the UK unemployment rate are expected, peaking at 4.9% in Q423. The Bank of England continues raising interest rates, peaking in 2023, and consumer price inflation eases over 2023.

In the Downside 2 scenario, inflation continues to accelerate amid increasing gas and oil prices and persistent supply-chain pressures as a result of the Russian invasion of Ukraine. The Bank of England is forced to raise interest rates sharply with the UK bank rate reaching 8%.Unemployment peaks at 8.5%. Given already stretched valuations, the sharp increase in borrowing costs sees house prices decrease significantly. In the Upside 2 scenario, lower energy prices add downward pressure on prices globally, while recovering labour force participation limits wage growth. As a result of easing inflation, the Bank of England lowers interest rates to support the economic recovery.

Macroeconomic variables used in the calculation of ECL (specific bases)[a]

	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
At 31 December 2022	%	%	%	%	%
UK GDP[b]	13.9	9.4	1.4	(3.2)	(6.8)
UK unemployment[c]	3.4	3.6	4.2	6.6	8.5
UK HPI[d]	37.8	21.0	1.2	(17.9)	(35.0)
UK bank rate	0.5	0.5	3.5	6.3	8.0
At 31 December 2021					
UK GDP[b]	21.4	18.3	3.4	(1.6)	(1.6)
UK unemployment[c]	4.0	4.1	4.5	7.0	9.2
UK HPI[d]	35.7	23.8	2.4	(12.7)	(29.9)
UK bank rate	0.1	0.1	0.7	2.8	4.0

Average basis represents the average quarterly value of variables in the 20 quarter period with GDP and HPI based on yearly average and quarterly CAGRs respectively.

Macroeconomic variables used in the calculation of ECL (5-year averages)[a]

	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
At 31 December 2022	%	%	%	%	%
UK GDP[e]	3.0	2.2	1.4	0.7	—
UK unemployment[f]	3.5	3.8	4.2	5.4	6.7
UK HPI[g]	6.6	3.9	1.2	(2.6)	(6.4)
UK bank rate	2.5	2.9	3.5	4.7	5.8
At 31 December 2021					
UK GDP[e]	4.4	3.9	3.4	2.7	1.8
UK unemployment[f]	4.3	4.4	4.5	5.8	7.0
UK HPI[g]	6.3	4.4	2.4	0.3	(2.0)
UK bank rate	0.3	0.5	0.7	1.7	2.3

a) UK GDP = Real GDP growth seasonally adjusted; UK unemployment = UK unemployment rate 16-year+; UK HPI = Halifax All Houses, All Buyers Index.
b) Maximum growth relative to Q420 (2021: Q419), based on 20 quarter period in Upside scenarios; 5-year yearly average CAGR in Baseline; minimum growth relative to Q420 (2021: Q419), based on 20 quarter period in Downside scenarios.
c) Lowest quarter in Upside scenarios; 5-year average in Baseline; highest quarter in Downside scenarios. Period based on 20 quarters from Q121 (2021: Q120).
d) Maximum growth relative to Q420 (2021: Q419), based on 20 quarter period in Upside scenarios; 5-year quarter end CAGR in Baseline; minimum growth relative to Q420 (2021: Q419), based on 20 quarter period in Downside scenarios.
e) 5-year yearly average CAGR, starting 2021 (2021: 2020).
f) 5-year average, Period based on 20 quarters from Q121 (2021: Q120).
g) 5-year quarter end CAGR, starting Q420 (2021: Q419).

(vii) ECL under 100% weighted scenarios for modelled portfolios

The table below shows the ECL assuming scenarios have been 100% weighted. Model exposures are allocated to a stage based on the individual scenario rather than through a probability-weighted approach as required for Barclays reported impairment allowances. As a result, it is not possible to back solve to the final reported weighted ECL from the individual scenarios as a balance may be assigned to a different stage dependent on the scenario. Model exposure uses Exposure at default (EAD) values and is not directly comparable to gross exposure used in prior disclosures. An average EAD measure is used for all portfolios (12 month or lifetime depending on stage allocation in each scenario). Therefore, the model exposure movement into Stage 2 is higher than the corresponding Stage 1 reduction.

Model Exposures allocated to Stage 3 do not change in any of the scenarios as the transition criteria relies only on observable evidence of default as at 31 December 2022 and not on macroeconomic scenarios.

Under the Downside 2 scenario, model exposure moves between stages as the economic environment weakens. This can be seen in the movement of £17.5m of model exposure into Stage 2 between the Weighted and Downside 2 scenario. ECL increases in Stage 2 predominantly due to unsecured portfolios as economic conditions deteriorate

Unsecured and other Retail lending scenarios

At 31 December 2022	Weighted	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
Stage 1 Model Exposure (£m)	2543.0	2546.5	2545.4	2544.1	2536.1	2525.6
Stage 1 Model ECL (£m)	9.6	9.6	9.6	9.6	9.5	9.4
Stage 1 Coverage (%)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Stage 2 Model Exposure (£m)	48.5	45.0	46.1	47.4	55.5	66.0
Stage 2 Model ECL (£m)	7.6	7.3	7.4	7.5	8.3	9.2
Stage 2 Coverage (%)	15.7%	16.2%	16.1%	15.8%	15.0%	13.9%
Stage 3 Model Exposure (£m)	32.9	32.9	32.9	32.9	32.9	32.9
Stage 3 Model ECL (£m)	24.7	24.1	24.4	24.7	25.0	25.6
Stage 3 Coverage (%)	75.1%	73.3%	74.2%	75.1%	76.0%	77.8%
Total Model ECL (£m)	41.9	41.0	41.4	41.8	42.8	44.2

	2022
Reconciliation to total ECL	£000
Total model ECL	29.8
ECL from management adjustments	32.9
Total ECL	**62.7**

The Model ECL figure of 41.9m includes an adjustment of 12.1m pertaining to PD performing fix, which is included within management adjustments in the above table. The total weighted ECL represents a 0.4% uplift from the Baseline ECL reflecting the range of economic scenarios used. Total ECL increases to £44.3m under the Downside 2 scenarios, mainly driven by Stage 3, where the coverage rate increases to 77.8% from a weighted scenario approach of 75.1%, and a £17.5m increase in model exposure of Stage 2 that meets the Significant Increase Credit Risk criteria and transitions from Stage 1 to Stage 2.

ECL from management adjustment relates to post model adjustments (PMA) to address model weaknesses or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Each PMA above an absolute and relative threshold is approved by the Independent Validation Unit (IVU) for a set time period (usually a maximum of six months) together with a plan for remediation where related to a model deficiency. The most material PMAs are also approved by the Chief Risk Officer (CRO).

Unsecured and other Retail lending scenarios

At 31 December 2021	Weighted	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
Stage 1 Model Exposure (£m)	2422.0	2423.8	2423.3	2422.7	2415.6	2404.9
Stage 1 Model ECL (£m)	8.9	8.7	8.8	8.9	9.2	9.4
Stage 1 Coverage (%)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Stage 2 Model Exposure (£m)	38.5	36.7	37.2	37.8	44.9	55.6
Stage 2 Model ECL (£m)	5.1	4.3	4.6	4.8	6.6	8.5
Stage 2 Coverage (%)	13.2%	11.8%	12.2%	12.7%	14.7%	15.2%
Stage 3 Model Exposure (£m)	33.6	33.6	33.6	33.6	33.6	33.6
Stage 3 Model ECL (£m)	25.2	24.8	24.9	25.1	25.7	26.6
Stage 3 Coverage (%)	75.0%	73.8%	74.3%	74.8%	76.4%	79.1%
Total Model ECL (£m)	39.2	37.8	38.3	38.8	41.4	44.4

	2021
Reconciliation to total ECL	£000
Total model ECL	39.2
ECL from management adjustments	16.1
Total ECL	**55.3**

The movement in PMAs from £16.1m to £32.9m is majorly driven by the following:

- The models have been developed with data from non-inflationary periods establishing a relationship between input variables and customer delinquency based on past behaviour. Additionally, models are trying to interpret significant rates of change in macroeconomic variables and applying these to stable probability of default (PD) levels. As such there is a risk that the modelled output fails to capture the appropriate response to changes in macroeconomic variables and rising costs with modelled impairment provisions impacted by uncertainty. Model uncertainty adjustments of £18.4m were introduced to capture the impact from model limitations and unintuitive model response to the regenerated economic scenarios during 2022.

- A £1.1m increase in other modelling adjustments that are operational in nature and expected to remain in place until they can be corrected in the underlying models. These adjustments result from data limitations and model performance related issues identified through established governance processes, including an adjustment to the qualitative measures used in identification of high-risk account management (HRAM) accounts, offset by

- The refresh of economic uncertainty adjustments during the period as part of the process of identifying customers and clients who may be more vulnerable to economic instability. There was a release of an economic uncertainty PMA of £5.3m, which was replaced by an economic PMA of £2.5m to capture the risk associated with the affordability stress seen at year-end 2022. Where the former was to capture the unemployment rate related stress, the latter is to compensate for the risk to customer affordability due to rising inflation and base rate and squeezing disposable income.

b) Liquidity risk

This is the risk that the Company's cash and committed facilities may be insufficient to meet its debts as they fall due.

The Company has the available banking facilities provided by Barclays Bank PLC, and the financial support of the ultimate parent, Barclays PLC. These facilities are designed to ensure the Company has sufficient available funds for operations.

The monitoring and reporting of liquidity risk take the form of cash flow measurements and projections for the next day, week and month as these are key periods for liquidity management. Sources of liquidity are regularly reviewed.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Company manages the inherent liquidity risk based on discounted expected cash inflows.

2022	<=1 year	1-2 years	2-5 years	5-10 years	>10 years	Total
	£000	£000	£000	£000	£000	£000
Trade and other payables	414,417	101,610	28,231	-	-	544,258
Borrowings	1,237,048	722,009	624,498	208,080	2,328	2,793,963
Provisions	226,564	-	-	-	-	226,564
Total	1,878,029	823,619	652,729	208,080	2,328	3,564,785

2021	<=1 year	1-2 years	2-5 years	5-10 years	>10 years	Total
	£000	£000	£000	£000	£000	£000
Trade and other payables	372,933	100,151	39,796	-	-	512,880
Borrowings	1,148,037	661,403	587,672	244,784	5,502	2,647,398
Provisions	68,165	-	-	-	-	68,165
Total	1,589,135	761,554	627,468	244,784	5,502	3,228,443

(c) Market risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates. Interest rate risk is the Company's only significant market risk.

(d) Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the Company's interest bearing financial assets and liabilities.

The Company funds itself through fixed rate borrowings, which are hedged against its fixed rate loan products thereby making any exposure to interest rate risk minimal.

The maturity of interest earning and bearing financial assets and liabilities was as follows:

	1 year	1-5 years	> 5 years	Total
2022	£000	£000	£000	£000
Interest earning financial assets	1,697,017	1,322,909	52,669	3,072,595
Interest bearing financial liabilities	1,193,654	1,092,711	208,239	2,494,604

	1 year	1-5 years	> 5 years	Total
2021	£000	£000	£000	£000
Interest earning financial assets	1,579,101	1,288,521	34,353	2,901,975
Interest bearing financial liabilities	1,175,533	1,093,429	192,692	2,461,654

Interest rate sensitivity analysis

The sensitivity of the income statement is the effect of assumed changes in interest rates on the net interest income for one year, based on the interest earning financial assets and interest bearing financial liabilities held as at 31 December 2022, including the effect of hedging instruments.

Impact on net interest income

The effect on interest of a 25 basis point increase or decrease in interest rates on net interest income is as follows:

	+ 25 basis points	- 25 basis points	+ 25 basis points	- 25 basis points
	2022	**2022**	**2021**	**2021**
	£000	£000	£000	£000
Total net interest income impact	229	(229)	217	(217)
As a percentage of net interest income	0.35 %	(0.35)%	0.27 %	(0.27)%

(e) Foreign currency risk

The Company is exposed to foreign currency risk from future foreign currency transactions, and recognised assets and liabilities. This risk is not considered significant.

At 31 December 2022, the Company had net Euro assets of £0.04m (2021: £0.01m).

(f) Price risk

Price risk is the risk that market prices for the Company's investment securities measured at fair value may fall.

The Company has no equity price risk exposure.

22. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions, or one other party controls both.

The definition of related parties includes parent company and ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors.

Other related party transactions

Particulars of transactions, and the balances outstanding at the year end, are disclosed in the table below:

Related party relationship	Type of transaction	Transaction amount		Balance outstanding	
		2022	2021	2022	2021
		£000	£000	£000	£000
Barclays Bank PLC	Interest paid	(777)	(1,572)	-	-
Barclays Bank PLC	Interest received	2,485	1,333	-	-
Barclays Bank PLC	Overhead recharges	(435)	(410)	-	-
Barclays Bank PLC	Other income/ expense	-	(7)	-	-
Barclays Bank UK PLC	Overhead recharges	(33,687)	(33,007)	-	-
Barclays Execution Services Limited	Overhead recharges	(68,657)	(64,180)	-	-
Fellow subsidiaries	Interest paid	(48,234)	(51,111)	-	-
Fellow subsidiaries	Overhead recharges	(1)	(5)	-	-
Fellow subsidiaries	Fees & commission received	615	2,655	-	-
Barclays Bank PLC	Asset	-	-	627,478	639,834
Carnegie Holdings Limited	Liability	-	-	(143)	(143)
Barclays Execution Services Limited	Liability	-	-	(5,743)	(5,126)
Fellow subsidiaries	Liability	-	-	(2,494,603)	(2,914,548)
Barclays Bank UK PLC	Liability	-	-	(3,574)	(4,996)
Total		(148,691)	(146,304)	(1,876,585)	(2,284,979)

The Company receives the majority of its funding from Barclays Bank PLC Group subsidiaries, on which interest is paid.

The loan instruments with Barclays Bank PLC Group subsidiaries as lender have fixed and floating coupons. The Company has an uncommitted and unlimited term loan facility.

Administrative and other expenses consist primarily of recharges for central support and functional overheads, the majority of which are now being billed through Barclays Execution Services Limited (formerly Barclays Services Limited) following Group restructuring in advance of ring-fencing in 2018.

There are no transactions with key management to disclose.

Auditor's fees for the Company and the immediate parent company are borne by Barclays Bank UK PLC and not recharged to the Company.

Third party indemnity insurance for Directors is provided at no cost by the ultimate parent, Barclays PLC. The Directors and key management participate in the Sharesave and Share Purchase schemes for which no charge is made to the Company.

23. Capital management

The Company's objectives when managing capital are:• To safeguard the Company's ability to continue as a going concern;

• To maintain an optimal capital structure in order to reduce the cost of capital;

• To generate sufficient capital to support asset growth;

• To manage foreign currency exposures.

The Board of Directors is responsible for capital management and have approved minimum control requirements for capital and liquidity risk management.

The Company regards capital as its equity, which was £53.4m (2021: £74.1m), as shown in the Statement of Financial Position.

The equity position for the year ended 31 December 2022 includes the issuance of 1,000,000 fully paid ordinary shares of £1.0 each at a premium of £249 per share, and another 1,000,000 fully paid ordinary shares of £1.0 each at a premium of £49 per share (note 18).

24. Parent undertaking and ultimate holding company

The Company is a subsidiary undertaking of Carnegie Holdings Limited which is the immediate parent company incorporated in the United Kingdom, registered office 1 Churchill Place, London, E14 5HP. The ultimate controlling party is Barclays PLC.

The smallest and the largest group in which the results of the Company are consolidated is that headed by Barclays PLC, 1 Churchill Place London E14 5HP. No other Group financial statements include the results of the Company.

The consolidated financial statements of these groups are available to the public and may be obtained from, Barclays Corporate Secretariat, 1 Churchill Place London E14 5HP.

25. Events after the reporting date

Since year-end, the Company announced a significant change in its business strategy to scale back the Barclays Partner Finance business over the next 18-24 months as the Barclays Group invests in building a new technology platform for the point-of-sale finance business to ensure it remains fit for the future. As a result, Barclays Partner Finance will pause the onboarding of new retail partners, and it will only provide new loans through a small number of its existing partners.

During June 2023, Barclays Luxembourg Global Funding (BLGF) novated £67.3m of funding with the Company to Barclays Bank PLC (BBPLC). Subsequently BBPLC released the Company from its debt obligation which was treated as an increase in Shareholders' Equity for the Company. This item has not been adjusted for in the 2022 Financial Statements, as permissible under IAS 10 for conditions arising after the balance sheet date.