

CLYDESDALE FINANCIAL SERVICES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Business review

The principal activity of Clydesdale Financial Services Limited ('the Company') is the provision of point of sale financing, primarily in the Retail industry. The Company trades as 'Barclays Partner Finance' giving it instant brand recognition, which supports prospecting activity and cross-sale income generation. The Company previously provided point of sale finance in the Motor sector, this segment was exited for new business during December 2019 and subsequently a significant portion of the associated financial assets were de-recognised during February 2020 as a part of a securitisation transaction (note 10).

Business performance

The results of the Company show a loss before tax of £128.3m (2019: loss before tax of £20.4m) for the year:

- Operating income has reduced by £100.6m year on year to £78.6m (2019: £179.2m). This is primarily due to the completion of the sale of the economic interest in the Motor loan book in February 2020.
- Impairment charge has increased in 2020 by £4.7m to £63.9m (2019: £59.2m), reflecting the impact of economic stress caused by the pandemic, which is partly offset by a reduction to the charge following the securitisation of a material portion of the Motor loan book.
- Operating expenses, including conduct and litigation costs, have increased by 1.8% year on year to £143.0m (2019: £140.5m). This is driven primarily by an increase in conduct and litigation expenses by £1.6m to £33.1m (2019: £31.5m).

As at 31 December 2020 the Company had total equity of £44.6m (2019: £115.6m). Due to the funding arrangements in place with a Barclays Bank PLC subsidiary (note 16), the Company has net current assets of £199.2m (2019: net current assets of £156.1m).

Net cash inflow for 2020 from operating activities was £1,951.4m (2019 net cash inflow: £40.7m) and average receivables balances have fallen by £1,548.7m to £2,551.4m. These are mainly driven by completion of the sale of the economic interest in the Motor loan portfolio in February 2020.

During December 2020, the Company executed the securitisation of a pool of Retail loans with a carrying value of £482.0m, transferring the right to future cashflows from these loans to a fellow subsidiary. The transaction did not meet IFRS9 de-recognition criteria, therefore the loans remain on the balance sheet and a corresponding payable relating to the failed sale liability has been recognised for future cashflows payable to the fellow subsidiary (note 12).

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 2020 to be satisfactory and in a positive position for future sustainable growth.

Future outlook

The Company exited the Motor sector at the end of 2019 to focus on growth opportunities within the Retail sector. The economic uncertainty caused by COVID-19 is managed through prudent risk management and the Company is continuing to view the Retail sector as one with potential growth. The Company's strategy of delivering the front book growth agenda will result in sustainable financial performance for the longer term.

The Company is engaged in various other legal, competition and regulatory matters. 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, there can be no assurance that the outcome of a particular matter or matters (including formerly active matters or those matters arising after the publication 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 (note 15).

CLYDESDALE FINANCIAL SERVICES LIMITED**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020****Principal risks and uncertainties**

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

Whilst the direct and indirect impact of the Coronavirus (COVID-19) outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP throughout 2020. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks and a prolongation of the outbreak could significantly adversely affect economic growth, affect specific industries or countries or affect the services from Barclays Group. In addition, an escalation in geopolitical tensions or increased use of protectionist measures may also negatively impact the Company's business.

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 20 '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	2020	2019
Average receivables balance (in £m)	2,551	4,100
Number of customer accounts	1,953,192	1,714,548
Net interest income margin	4.37%	4.20%
Impairment loss rate	2.19%	1.44%
Cost to income ratio	181.9%	78.4%
Balance sheet impairment coverage	3.70%	3.14%

KPI definitions:-

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

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STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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 Clydesdale Financial Services Limited 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 indirect employees; our customers, which consists primarily of entities within the Barclays Group; our suppliers; and our shareholder, Barclays PLC; regulators; the UK Government and non-governmental organisations.

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 21 of the Barclays PLC Annual Report 2020 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 or necessarily achieve a positive outcome for all stakeholders.

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. This information is 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.

Engagement in action

The following is an example of how the Directors have had regard to the matters set out in section 172 when discharging their duties, and the effect of those considerations in reaching certain decisions taken by them.

COVID-19

Throughout almost the entirety of 2020, as the pandemic unfurled, the primary focus of the Company and the Board has been on (i) the operational and financial resilience of the Company to ensure the Barclays Group has been able to maximise its support for the economy and society during a time of such challenge; (ii) supporting Barclays Group's customers and clients to relieve financial pressure whilst at the same time working with the UK Government to deliver programmes to help businesses; and (iii) protecting the health and well-being of colleagues (the 'COVID-19 Priorities'). The Board has demonstrated leadership and oversight during the pandemic, and this continues at the date of this report.

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STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Customers

In order to help relieve the financial pressure for customers and clients throughout these unprecedented times, the Board supported management in making appropriate adjustments which were aligned with the requirements of the FCA, PRA and UK Finance. This included an option for customers to apply for an initial 3-month payment deferral to help with any short-term financial difficulties as a result of impact from COVID-19, followed by a further 3 month payment holiday (subject to qualifying criteria) in line with FCA guidance. Additional forbearance was provided as follows:

- where a customer agreement was subject to daily interest charges, these were waived for the term of the payment holiday
- where motor customers took a payment holiday adjustments were made to the mileage allowance and the original Guaranteed Minimum Future Value was maintained to ensure customer detriment did not arise. Repossession of vehicles was also suspended and is still subject to flexibility in application to provide additional consumer support.
- Once payment holiday periods came to an end, a short term rebuild plan to return to full payment over 3 months was optionally available to customers.

Colleagues

The Board received regular updates explaining the measures being implemented to protect and safeguard the health and well-being of our Barclays Group colleagues. Barclays has a long established approach to engaging regularly with colleagues to ensure that the Barclays Group listens and takes all perspectives into account in its decision making and action plans. As a result of COVID-19, many of these events this year were web based. The Barclays Group has reinforced Government guidelines providing colleagues with the equipment necessary to enable colleagues to work from home. This has included increased technological support, laptops and other home office equipment and human resources support. Recognising the additional pressures and challenges faced by colleagues as a result of the pandemic, the Barclays Group has also endorsed the provision of support services and helplines for colleagues as well as the provision of education and training tools, including increased support in relation to mental health and wellbeing.

Over the last 12 months, we have learnt an enormous amount about the benefits and challenges of working more flexibly. Ultimately, we believe this will inform our ambitions for future ways of working.

Operations

In light of Covid-19 the business has:

- Revised its outlook for 2020 which included the impact of COVID-19 and UK lockdown. Considered its financial requirements for the coming years and will seek additional funding from its shareholder as and when appropriate.
- Enhanced the monitoring of Barclays Partner Finance clients throughout the period of UK lockdown in order to track the stability of clients and to identify new opportunities.
- Redefined its affordability principles:
 - o ensure that customer income information included any impact caused by COVID-19.
 - o all self-employed customers were subject to a full income and expenditure assessment.
 - o additional third party automated verification of customer's income would be adopted replacing the use of historic 12-month averages in the assessment.

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**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

FOR AND ON BEHALF OF THE BOARD

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J R Davies
Director

Date: 27 July 2021

Company number: 02901725