

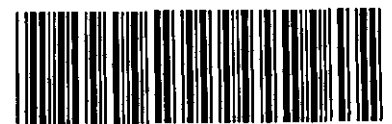
Company Number: SC113775

CLYDESDALE BANK ASSET FINANCE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 2008

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CLYDESDALE BANK ASSET FINANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 2008

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CLYDESDALE BANK ASSET FINANCE LIMITED

Officers and Professional Advisers

Directors	Ian Barr Keith Carnegie
Secretary	Michael Webber
Registered Office	30 St Vincent Place Glasgow G1 2HL
Bankers	Clydesdale Bank PLC
Auditors	Ernst & Young LLP Registered Auditor

CLYDESDALE BANK ASSET FINANCE LIMITED

Report of the Directors

The Directors of Clydesdale Bank Asset Finance Limited (the "Company") submit their report and Financial Statements for the year ended 30 September 2008.

Activities

The Company provides instalment credit finance and leasing facilities to industry, commerce and private individuals.

Profits and appropriations

The profit attributable to the shareholder for the year ended 30 September 2008 amounted to £12,346,000 (2007: £1,695,000). No dividends were paid during the year (2007: £nil). The directors do not recommend the payment of a final dividend in respect of this financial year (2007: £Nil).

Principal risks and uncertainties

The key risks facing the Company are discussed further in Note 17.

Going Concern

The directors are satisfied that the Company has adequate resources to meet its obligations for the foreseeable future and confirm that the Company is a going concern. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Business review

The Company and its subsidiaries continue to provide leasing services. There has been no change to the business of the Company during the year. Lease income has increased in the year, consistent with the increase in finance lease receivables.

The directors do not rely on key performance indicators at the individual company level. The business is managed by monitoring product related information in conjunction with that of other leasing entities within the UK Group which is not specific to individual companies.

Directors and Directors' interests

In terms of the Articles of Association of the Company, no directors are required to retire by rotation.

Directors interests

The current directors are shown on page 2. None of the directors held shares in the Company or in any related UK company during the year. As the Company is a wholly owned subsidiary of National Australia Bank ("NAB"), which is incorporated in Australia, any interest which the Directors may have in NAB does not need to be notified to the Company and thus is not disclosed in this report.

Directors' liabilities

During the year the NAB Group paid a premium for a contract insuring the directors and officers of NAB, its subsidiaries and controlled entities against personal liabilities which may arise in the course of the performance of their duties, as well as protecting the NAB Group itself to the extent that it is obligated to indemnify directors and officers for such liability.

CLYDESDALE BANK ASSET FINANCE LIMITED

Report of the Directors

Employee involvement

The Company carries out an information programme to keep staff informed of business objectives and results. This is achieved through regular meetings, circulars, bulletins and specially commissioned videos as well as training courses for staff.

Under the UK National Share Incentive Plan employees are entitled to purchase up to £1,500 worth of NAB shares each year through the National Partnership Share Plan. Participants contribute each month and the trustee uses the contributions to purchase shares which are then held in trust for the participants. Participants are entitled to receive dividends and exercise voting rights in respect of these shares and there is no risk of forfeiture. In addition, up to £3,000 of free shares per employee may be gifted per annum through the plan.

Charitable and political donations

No charitable or political donations were made throughout the year (2007: £Nil).

Elective regime

In accordance with the provisions of the Companies Act 1985, as amended, the Company has elected to dispense with the laying of financial statements before a general meeting, the holding of annual general meetings and the obligation to appoint auditors annually.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow Directors and of the company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Directors



Keith Carnegie
Director
22 July 2009

CLYDESDALE BANK ASSET FINANCE LIMITED

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Company Law requires the Directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company, and of the profit or loss for that financial year. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Financial Statements comply with the Companies Act 1985. They 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.

CLYDESDALE BANK ASSET FINANCE LIMITED

Independent Auditor's Report to the members of Clydesdale Bank Asset Finance Limited

We have audited the Financial Statements of Clydesdale Bank Asset Finance Limited for the year ended 30 September 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 19. These Financial Statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

Respective responsibilities of Directors and Auditors

The Directors' Responsibilities for preparing the Financial Statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 September 2008 and of its profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Financial Statements.

A handwritten signature in black ink, appearing to read 'St & Za LLP'.

Ernst & Young LLP
Registered Auditor
London

CLYDESDALE BANK ASSET FINANCE LIMITED**Income Statement for the year ended 30 September 2008**

	Note	2008 £'000	2007 £'000
Lease income		47,120	35,930
Finance costs	16	<u>(32,439)</u>	<u>(30,535)</u>
		14,681	5,395
Other operating income	3	<u>5,502</u>	<u>2,655</u>
		5,502	2,655
Total operating income		20,183	8,050
Personnel expenses		(119)	(176)
Other operating expenses		<u>(2,900)</u>	<u>(5,088)</u>
Total operating expenses	4	(3,019)	(5,264)
Profit on ordinary activities before tax		17,164	2,786
Tax expense	5	<u>(4,818)</u>	<u>(1,091)</u>
Retained profit for the financial year		<u>12,346</u>	<u>1,695</u>

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

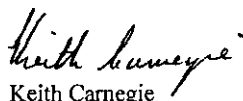
All items dealt with in arriving at the profit before tax for 2008 and 2007 relate to continuing operations.

CLYDESDALE BANK ASSET FINANCE LIMITED

Balance Sheet as at 30 September 2008

	Note	2008 £'000	2007 £'000
Non current assets			
Investments in controlled entities	6	600	600
Finance lease receivables	7	465,303	356,424
Deferred tax asset	9	<u>1,187</u>	<u>1,336</u>
		467,090	357,024
Current assets			
Due from related entities	16	272,325	284,482
Finance lease receivables	7	274,735	241,899
Trade and other receivables	10	<u>200</u>	<u>2,686</u>
		547,260	530,403
Total assets		<u>1,014,350</u>	<u>887,427</u>
Current liabilities			
Due to related entities	16	738,721	655,327
Trade and other payables	11	<u>236</u>	<u>185</u>
		738,957	655,512
Non current liabilities			
Due to related entities	16	252,557	221,430
Total liabilities		<u>991,514</u>	<u>876,942</u>
Net assets		<u>22,836</u>	<u>10,485</u>
Shareholders' equity			
Share capital	12	6,000	6,000
Retained earnings	13	<u>16,836</u>	<u>4,485</u>
Total shareholders' equity	14	<u>22,836</u>	<u>10,485</u>

The Financial Statements were approved by the Directors on 22 July 2009 and were signed on their behalf by:



Keith Carnegie
Director

CLYDESDALE BANK ASSET FINANCE LIMITED

Cash Flow Statement for the year ended 30 September 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Profit before tax		17,164	2,786
<i>Adjustments for non-cash movements:</i>			
Finance costs	16	<u>32,439</u>	<u>30,535</u>
Cash flows from operating activities before changes in operating assets and liabilities		49,603	33,321
Changes in operating assets and liabilities			
<i>Net (increase)/decrease in:</i>			
Finance lease receivables		(141,715)	(93,171)
Trade and other receivables		1,812	(295)
<i>Net decrease/(increase) in:</i>			
Trade and other payables		<u>51</u>	<u>(3,531)</u>
Net cash used in operating activities		<u>(90,249)</u>	<u>(63,676)</u>
Tax paid		<u>(3,990)</u>	<u>(2,968)</u>
Net cash used in operating activities		<u>(94,239)</u>	<u>(66,644)</u>
Cash flows from financing activities			
Finance costs		(34,926)	(30,536)
Net decrease/(increase) increase in amounts due from related entities		3,764	(103)
Net increase in amounts due to related entities		<u>18,657</u>	<u>66,141</u>
Net cash provided by financing activities		<u>(12,505)</u>	<u>35,502</u>
Net decrease in cash and cash equivalents		<u>(106,744)</u>	<u>(31,142)</u>
Cash and cash equivalents at beginning of year		(188,848)	(157,706)
Cash and cash equivalents at end of year	15	<u><u>(295,592)</u></u>	<u><u>(188,848)</u></u>

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Clydesdale Bank Asset Finance Limited (the "Company") for the year ended 30 September 2008 were authorised for issue by the Directors on 22 July 2009 and the balance sheet was signed on their behalf by Keith Carnegie.

The Company is incorporated in the UK and registered in Scotland.

The ultimate parent undertaking, and ultimate controlling party is NAB, a company incorporated in the State of Victoria, Australia. This company also heads the largest group in which the results of the company are consolidated. The smallest group in which the results of the company are consolidated is that headed by Clydesdale Bank PLC which is incorporated and registered in Scotland.

Copies of the Clydesdale Bank PLC Group Financial Statements may be obtained from the Corporate Affairs Department, Clydesdale Bank PLC, 30 St. Vincent Place, Glasgow, G1 2HL.

The Financial Statements of the Company have been presented in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the Companies Act 1985. The principal accounting policies adopted by the Company are set out in Note 2.

2. Accounting policies

Basis of preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the application of fair value measurements as required by the relevant accounting standards.

Currency of presentation

All amounts are expressed in pounds sterling and all values are rounded to the nearest thousand pounds unless otherwise stated.

Investment in controlled entities

Investments in controlled entities are stated at original cost, and are written down to recoverable amount where their carrying value exceeds recoverable amount. Investments in controlled entities are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Any decrement in the carrying value is recognised as an expense in the income statement in the reporting period in which the impairment loss occurs.

Finance leases

Classification

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Recognition and subsequent measurement

Assets held under finance leases are recognised as finance lease receivables on Balance Sheet. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Initial direct costs include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease.

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Finance leases (continued)

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the lease discounted at the interest rate implicit in the lease. The net investment in the lease is the aggregate of the minimum lease payments receivable under a finance lease, and any unguaranteed residual value accruing.

When a lease is disposed of, the gain or loss on sale is recognised in the Income Statement on the effective date of sale.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event'), and that loss event or events has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Revenue recognition

(i) Finance leases

Finance lease income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

(ii) Fees

Loan origination fees that are integral to the yield of a lease agreement are separately identified for deferral and recognised as revenue using the effective interest rate method. Loan origination costs that are associated with the commencement of a lease agreement are separately identified for deferral and recognised using the effective interest rate method. The net origination fees are recognised as lease income.

Other fees are recognised as revenue in the period the service is provided.

Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset or liability is not recognised if it arises from initial recognition of an asset or liability that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

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

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

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

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of inception.

Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance where appropriate.

Accounting developments

During the year the IASB and International Financial Reporting Interpretations Committee issued the following standards with an effective date after the date of these financial statements.

International Financial Reporting Standards

Effective Date: Annual periods beginning on or after

IAS 1	Revised - Presentation of Financial Statements	1 January 2008
IAS 23	Revised - Borrowing costs	1 January 2009
IFRS 7	Amendment - Reclassification of Financial Instruments (i)	1 July 2008

(i) This amendment was issued on 13 October 2008 with a transition period whereby reclassifications can be made on or after 1 July 2008. The Group has not applied this retrospectively. Subsequent reclassifications made during the periods beginning on or after 1 November 2008 shall be reclassified from that date.

The directors do not anticipate that the adoption of these standards will have a material impact on the Company's financial statements in the period of initial application.

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

3. Other operating income	2008	2007
	£'000	£'000
Management fee income	93	202
Insurance commission	20	29
Document & option fees	800	679
Proceeds on sale of finance leases	2,504	-
Other income	2,085	1,745
	<u>5,502</u>	<u>2,655</u>
4. Operating expenses	2008	2007
	£'000	£'000
<i>Personnel expenses</i>		
Salaries, wages and non cash benefits	119	162
Other personnel expenses	-	14
	<u>119</u>	<u>176</u>
<i>Other operating expenses</i>		
Occupancy expenses	1,428	1,428
Loss on sale of plant & equipment	3,169	1,025
Related entity recharges (Note 16)	600	600
Write back/Provision for loan impairment (Note 8)	(2,919)	373
Loan impairment write off	497	824
Other operating expenses/(income)	125	838
	<u>2,900</u>	<u>5,088</u>
Total operating expenses	<u>3,019</u>	<u>5,264</u>

The Company's audit fees are borne by its parent company Clydesdale Bank PLC. The parent company paid £21,000 (2007: £20,000) of audit fees on behalf of the Company in relation to the current year.

5. Income tax

a) Analysis of charge in the period

	2008	2007
	£'000	£'000
<i>Current tax</i>		
Corporation tax payable at 29% (2007: 30%)		
- Current year	4,976	836
- Prior year	(159)	-
<i>Deferred tax</i>		
Origination and reversal of temporary timing differences		
- Current year	1	255
Income tax expense reported in income statement	<u>4,818</u>	<u>1,091</u>

Tax relating to items charged or credited to equity

<i>Current tax</i>		
Release of transitional deferred tax	(153)	159
<i>Deferred tax</i>		
Release of transitional deferred tax	148	(159)
Tax on items recognised directly in equity	<u>(5)</u>	<u>-</u>

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

5. Income tax (continued)

b) Factors affecting tax charge for the period

	2008 £'000	2007 £'000
Profit before tax	<u>17,164</u>	<u>2,786</u>
Profit multiplied by standard rate of corporation tax in UK of 29% (2007: 30%)	<u>4,978</u>	<u>836</u>
Effects of:		
Restatement of deferred tax balances to 28% (see note below)	(160)	96
Non deductible expenses	-	159
Total income tax charge for period	<u>4,818</u>	<u>1,091</u>

On 1 April 2008 the UK tax rate was reduced from 30% to 28%. The rate differences adjustment reflects the impact on the deferred tax balances held.

6. Investments in controlled entities

		£'000
At 30 September 2008 and 2007		<u>600</u>
Principal controlled entities at 30 September 2008	Nature of business	Country of incorporation and principal operations
CGF No. 3 Limited	Leasing	Scotland
CGF No. 6 Limited	Leasing	Scotland
CGF No. 9 Limited	Leasing	Scotland
CGF No. 12 Limited	Leasing	Scotland

7. Finance lease receivables

	Minimum lease payments	
	2008 £'000	2007 £'000
Amounts receivable under finance leases:		
Within one year	276,204	244,679
After more than one year and not later than 5 years	<u>467,791</u>	<u>360,520</u>
	743,995	605,199
Impairment losses (Note 8)	<u>(3,957)</u>	<u>(6,876)</u>
Present value of minimum lease payments receivable	<u>740,038</u>	<u>598,323</u>
Analysed as:	2008 £'000	2007 £'000
Current finance lease receivables	274,735	241,899
Non-current finance leases receivables	<u>465,303</u>	<u>356,424</u>
	<u>740,038</u>	<u>598,323</u>

The present value of minimum lease payments is not materially different to the minimum lease payments.

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

8. Impairment losses on credit exposures

	Individual 2008 £'000	Collective 2008 £'000	Total 2008 £'000	Individual 2007 £'000	Collective 2007 £'000	Total 2007 £'000
Opening balance	760	6,116	6,876	1,303	5,200	6,503
(Credit)/charge for the year	710	(3,629)	(2,919)	(543)	916	373
Closing balance	<u>1,470</u>	<u>2,487</u>	<u>3,957</u>	<u>760</u>	<u>6,116</u>	<u>6,876</u>

Amounts included in

Finance lease receivables (Note 7)

2008 £'000	2007 £'000
<u>3,957</u>	<u>6,876</u>

9. Deferred tax

Deferred tax asset

	2008 £'000	2007 £'000
Opening balance	1,336	1,591
Tax expense recognised in income statement (Note 5)	(1)	(255)
Deferred taxation recognised in equity	<u>(148)</u>	<u>-</u>
Closing balance	<u>1,187</u>	<u>1,336</u>

The deferred tax asset is attributable to the following items:

	2008 £'000	2007 £'000
Short term timing differences	1,097	1,235
Depreciation	2	2
Impairment reserve on credit exposures	<u>88</u>	<u>99</u>
	<u>1,187</u>	<u>1,336</u>

10. Trade and other receivables

	2008 £'000	2007 £'000
Corporation tax receivable	1,106	1,780
Other debtors	<u>(906)</u>	<u>906</u>
	<u>200</u>	<u>2,686</u>

11. Trade and other payables

	2008 £'000	2007 £'000
VAT payable	<u>236</u>	<u>185</u>
	<u>236</u>	<u>185</u>

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

12. Share capital

	Number	£'000
Authorised		
Ordinary shares of £1 each		
At 30 September 2008 and 2007	<u>50,000,000</u>	<u>50,000</u>

	Number	£'000
Allotted, called up and fully paid:		
Ordinary shares of £1 each		
At 30 September 2008 and 2007	<u>6,000,000</u>	<u>6,000</u>

13. Retained earnings

	2008 £'000	2007 £'000
At 1 October	4,485	2,790
Profit for the year	12,346	1,695
Tax on items recognised directly in equity	5	-
At 30 September	<u>16,836</u>	<u>4,485</u>

14. Shareholders' equity

	2008 £	2007 £
Retained profit for the year	12,346	1,695
Tax on items recognised directly in equity	5	-
Net increase in shareholders' equity	<u>12,351</u>	<u>1,695</u>
Opening shareholders' equity	10,485	8,790
Closing shareholders' equity	<u>22,836</u>	<u>10,485</u>

15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances due within three months at inception:

	2008 £'000	2007 £'000
Cash assets	271,029	279,422
Bank overdraft	<u>(566,621)</u>	<u>(468,270)</u>
	<u>(295,592)</u>	<u>(188,848)</u>

CLYDESDALE BANK ASSET FINANCE LIMITED

Notes to the Financial Statements (continued)

16. Related party transactions

The company receives a range of services from its immediate parent, Clydesdale Bank PLC, and from related parties, including loans and various administrative services.

	2008 £'000	2007 £'000
Amounts due from related entities		
Current assets		
<i>Cash assets</i>		
Held with immediate parent	271,029	279,422
<i>Other receivables</i>		
Due from controlled entities of the Company	1,140	5,017
Due from controlled entities of the ultimate parent	156	43
	<u>1,296</u>	<u>5,060</u>
Total amounts due from related entities	<u>272,325</u>	<u>284,482</u>
Amounts due to related entities		
Current liabilities		
<i>Bank overdraft</i>		
Held with immediate parent	566,621	468,270
<i>Loans</i>		
Due to immediate parent	168,421	175,054
<i>Other payables</i>		
Interest payable to immediate parent	3,679	6,166
Other amounts payable to immediate parent	-	192
Other amounts payable to controlled entities of the Company	-	5,645
	<u>3,679</u>	<u>12,003</u>
	<u>738,721</u>	<u>655,327</u>
Non current liabilities		
Loans due to immediate parent	<u>252,557</u>	<u>221,430</u>
The maturity of loans due after more than one year is as follows:		
- more than 1 year but less than 2 years	144,393	121,836
- more than 2 year but less than 5 years	104,943	99,594
- more than 5 years	3,220	-
Total loans	<u>252,557</u>	<u>221,430</u>
Transactions during the year with related parties		
Related entity recharges (Note 4)	600	600
Finance costs	<u>32,439</u>	<u>30,535</u>
	<u>33,039</u>	<u>31,135</u>

17. Risk overview

Management of risk

Effective management of risk is a key capability for a successful financial services provider, and is fundamental to the Company's strategy as well as that of its immediate parent, Clydesdale Bank PLC ("CB"), and of its ultimate parent entity National Australia Bank Limited ("NAB").

The Company manages risk within an established 'three lines of defence' framework. Control is exercised through clearly defined delegation of authority, with clear and rapid communication and escalation channels throughout the organisation. The first line of defence comprises the business units managing the risks associated with their activities. The second line encompasses dedicated risk functions who are accountable for independent monitoring and oversight. The third line of defence relates to Internal Audit independently reviewing, monitoring, and testing business unit compliance with risk policies and procedures, and regularly assessing the overall effectiveness of the risk management framework.

These company level defences are overlaid by a broader UK group risk management framework and procedure. This framework includes a European Board Risk Committee and a UK Regional Risk Management Committee.

The European Board Risk Committee focuses on key elements of risk, including compliance risk, operational risk, material risk, credit risk and balance sheet management.

The UK Regional Risk Management Committee independently monitors and systematically assesses the risk profile within the region against established risk appetite parameters. They also assist the 'front-line' businesses in the design and implementation of appropriate risk management policies/strategies, and work with the businesses to promote awareness of the need to manage risk. Together with the UK Risk Management function, efforts continue to evolve the organisational culture and staff behaviours.

Operational risk and compliance

Operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. This includes risk relating to the management of ongoing activities, as well as to organisational changes such as project and change initiatives.

Compliance is the requirement to comply with external regulatory and legal obligations in addition to operating within the Company and regional policies and standards. This includes risk relating to reputational impact, incurring restrictive conditions and undertakings by regulators on how the Company does business.

Operational risk and compliance is monitored and managed through the UK Regional Risk Management Committee and, ultimately, the European Board Risk Committee. These committees receive reports on group wide operational risk issues, including any pertinent issues of the Company, and manage these risk issues within prudential parameters. These boards operate within a framework called the 'Operational Risk and Compliance Framework' ("ORCF").

The ORCF is based on a set of core principles and defines the Company's standards for operational risk management and compliance. Its design recognises the importance of embedding operational risk and compliance into 'business-as-usual' activities. It has particular focus on defining and implementing the right behaviours and incorporating risk considerations into the Company's systems and processes.

The ORCF is an essential element of the business strategy, which underpins all operational risk management activities. It includes:

- an established governance structure that is used to ensure consistent application, management and reporting of the operational risk management process. This element also includes the establishment and communication of the Company's operational risk appetite;
- a structured risk management process to facilitate the identification, quantification and management of risks.

The Company is committed to sound operational risk management and compliance within this framework.

CLYDESDALE BANK ASSET FINANCE LIMITED

Risk Overview (continued)

17. Management of risk (continued)

Fair values

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The carrying amounts of cash and cash equivalents, amounts due from and due to related entities, and other trade receivables and payables are considered to approximate fair value. This is due to their short term nature.

The carrying amounts for lease receivables are based on the cashflows coming from an internal accounting system.

Credit risk

Credit risk is the potential that a borrower or a counterparty will fail to meet its obligations in accordance with agreed terms. The NAB Group's credit risk management infrastructure is framed to provide sound management principles and practices for the maintenance of appropriate asset quality across the NAB Group. These principles and practices are followed by the Company. Group Portfolio Management & Policy, a division of NAB Group Risk Management, is responsible for the development and maintenance of credit policies and key credit risk systems that form the basis of the Company's credit risk management.

The Company achieves its credit risk management objectives through both the traditional focuses on approval and monitoring of individual transactions and asset quality, analysis of the performance of the various credit risk portfolios and the independent oversight of credit portfolios, all of which are within the established group credit risk policy and management framework. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends.

The maximum exposure to credit risk for the components of the balance sheet are set out below:

<i>Assets</i>	2008 £'000	2007 £'000
Investments in controlled entities	600	600
Finance lease receivables	740,038	598,323
Due from related entities	272,325	284,482
Trade and other receivables	200	2,686
Total credit risk exposure	1,013,163	886,091

The Company does not have any collateral or other credit enhancements supporting these assets. There are no undrawn commitments that the Company is exposed to. The credit quality of assets is disclosed within the consolidated financial statements of its immediate parent, Clydesdale Bank PLC.

Balance sheet market risk

Balance sheet market risk for the Company includes liquidity risk and structural interest rate risk.

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

Policies, inclusive of risk appetite and limits, are approved by the NAB Board, with Group authority delegated to the NAB Group Asset and Liability Management Committee (Group ALCO) and CB Asset and Liability Management Committees (CB ALCOs) for their subsequent implementation and monitoring. UK Treasury manage balance sheet risk and Non-Traded Market Risk provide a risk oversight. While their responsibilities extend to the entire UK Group, the Company's activities fall within their remit.

Structural interest rate risk

Structural interest rate risk comprises the sensitivity of the Company's current and future net interest income to movements in market interest rates. The Company's major contributor to interest rate risk is the inability of the pricing basis of finance lease asset products to be replicated in the financial markets.

Interest rate risk is principally managed through the provision by CB of fixed rate lending to the Company. This fixed rate lending is ultimately offset against fixed rate liability products.

CLYDESDALE BANK ASSET FINANCE LIMITED
Risk Overview (continued)

17. Management of risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has no material transactional exposures that give rise to net currency gains and losses.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due at acceptable cost.

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

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

Cash flows maturity profile for liabilities as they fall due

2008

£'000	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Liabilities						
Due to related entities	617,130	140,385	265,882	3,439	-	1,026,836
Trade and other payables	-	-	-	-	236	236
	<u>617,130</u>	<u>140,385</u>	<u>265,882</u>	<u>3,439</u>	<u>236</u>	<u>1,027,072</u>

Cash flows maturity profile for liabilities as they fall due

2007

£'000	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Liabilities						
Due to related entities	504,016	163,650	235,001	2,568	5,837	911,072
Trade and other payables	-	-	-	-	185	185
	<u>504,016</u>	<u>163,650</u>	<u>235,001</u>	<u>2,568</u>	<u>6,022</u>	<u>911,257</u>

CLYDESDALE BANK ASSET FINANCE LIMITED
Risk Overview (continued)

18. Events since the balance sheet date

No information has been identified since the balance sheet date about conditions existing at the balance sheet date which is required to be disclosed in these Financial Statements.

19. Capital management overview

The Company is governed by NAB Group's capital management policy. The objectives of the NAB Group's capital management policy are to efficiently manage the capital base to optimise shareholder returns whilst maintaining capital adequacy and satisfying key stakeholders such as regulators and ratings agencies.

The Company is not subject to externally imposed capital requirements, however its capital is managed as part of the National Australia Group Europe Limited (NAGE) Group.

The NAGE Group's prime objectives in relation to the management of capital are to comply with the requirements set out by the Financial Services Authority (FSA), the NAGE Group's primary prudential supervisor, to provide a sufficient capital base to cover business risks, maintain a targeted credit rating and to support future business development.

The NAGE Group implemented Basel II requirements from 1 January 2008 in measuring operational and credit risks under the standardised approach and is progressively moving towards advanced approaches. Under Pillar I of Basel II, the NAGE Group calculates its minimum capital requirements based on 8% of RWAs. The FSA then applies a multiplier to this amount to cover risks under Pillar II of Basel II and generate a Final Individual Capital Guidance (ICG).

The ultimate responsibility for capital adequacy rests with the Board of Directors. The NAGE Group's Asset and Liabilities Committee (ALCO), which consists of an Executive Director, Chief Financial Officer and other senior executives, is responsible for the management of the capital process including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The NAGE Group actively manages its capital position and reports this on a regular basis to senior management via ALCO and other governance committees. Capital requirements are included within an annual capital management plan with initiatives being executed against this plan.