Annual Report and Financial Statements

Clydesdale Bank Asset Finance Limited

For the year ended 30 September 2018

Company number: SC113775

Clydesdale Bank Asset Finance Limited

Annual Report and Financial Statements
For the year ended 30 September 2018

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Clydesdale Bank Asset Finance Limited

Directors and Professional Advisers
For the year ended 30 September 2018.

Directors	Douglas Brown Donald Kerr (Appointed 4 December 2017; Resigned 21 November 2018) Gavin Halliday Anthony Thompson
Secretary	Graeme Duncan
Registered office	30 St Vincent Place Glasgow G1 2HL
Independent auditors	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX
Bankers	Clydesdale Bank PLC

Clydesdale Bank Asset Finance Limited

Strategic Report

The Directors of Clydesdale Bank Asset Finance Limited ("the Company") present their Strategic Report for the year ended 30 September 2018.

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

Business structure

The Company is incorporated under the Companies Act 2006 and registered in Scotland. The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

The Company is a wholly owned subsidiary of Clydesdale Bank PLC ("CB PLC"), a company incorporated under the Companies Act 2006 and registered in England and Wales. The smallest group in which the results of the Company are consolidated is that headed by CB PLC. CYBG PLC, a company incorporated under the Companies Act 2006 and registered in Scotland, is the ultimate parent company. CYBG PLC is authorised by the Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA. CYBG PLC and its subsidiary undertakings comprise the CYBG Group ("Group"), the largest group in which the results of the Company are consolidated. Further detail of the group structure is disclosed in note 1.

Principal activities

The Company provides instalment credit asset finance facilities to industry, commerce and private individuals, offering customers a moveable asset. There has been no significant change to business operations during the year and no significant change in business operations is expected. The Company is regulated by the FCA due to the FCA's regulation of consumer credit act permissions.

The Company's overall strategic objective is aligned to the Group, who aims to be a strong, customer-centric bank that proactively responds to changes in its customers' needs and builds long-standing customer relationships. The Group is committed to delivering a strong banking proposition in the UK, ensuring customers are placed at the centre of how this is achieved.

The Group strategy continues to ensure that the Company's lease receivables are appropriately managed. Consequently, the level of risk inherent within the Company with regard to leasing activity is kept to a minimum and managed through the Group.

Financial analysis

The Statement of Comprehensive Income for the year is set out on page 11. The Company made a loss after tax of £72,000 in the current year, compared to a profit after tax of £32,000 in the year ended 30 September 2017.

Lease income has decreased by £15,000 (38%) in the year to £25,000 , reflecting the continued reduction in the Company's leasing book. Finance income has decreased by £40,000 (34%) in the year to £78,000 due to a decrease in interest received on cash balances during the year.

Other operating income has decreased by £1,000 (100%) to £Nil.

The Company's Balance Sheet for the year is set out on page 12. The Company's total assets and liabilities have increased by £88,000 (1%) and £160,000 (37%) respectively as at 30 September 2018 when compared to total assets and liabilities at 30 September 2017. The increase in total assets was mainly driven by an increase in amounts due from related entities of £347,000 in respect of bank accounts held with CB PLC, offset by a reduction of £275,000 in finance lease receivables. The increase in total liabilities was driven primarily by an increase of £173,000 in amounts due to related entities; attributable mainly to the current year's management recharge.

Key performance indicators

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

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Principal risks and mitigating actions

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives.

The Directors have performed a robust assessment of the principal risks facing the Company, including those that would threaten its business model and future performance, solvency or liquidity. The following Group risks and mitigating actions are also applicable to the company.

Principal risks	Key mitigating actions
Credit Risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contracted obligations to the Group in accordance with the terms agreed. Credit risk is evident at both a portfolio and transactional level.	• Significant credit risk strategies, credit risk appetite and tolerances for credit risk are approved and reviewed by the Board and Board's Risk Committee. • The credit portfolio is closely monitored with actions initiated where required.
Balance Sheet & Prudential Regulation Risks cover a number of categories of risk, which affect the manner in which the Group can support its customers in a safe and sound manner. The risks include the need to withstand times of stress for the loss of funding (liquidity), the impact of restricted access to future sources of deposits (funding), the impact of providing a defined benefit scheme to colleagues (pension) and the need to withstand severe unexpected losses (capital).	• Liquidity is managed in accordance with standards that are approved by the Board and supported by annual Funding and Contingency Funding Plans. The Group also completes a formal annual assessment of liquidity adequacy which is shared with the PRA. • The Group completes a formal annual assessment of its capital requirements which is shared with the PRA.
Regulatory and Compliance Risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives.	• Continued and significant Board and senior management focus is directed towards maintaining regulatory compliance. The Board or Executive Risk Committee approves all material changes to regulatory policy and protocols.
Conduct Risk is the risk of undertaking business in a way which is contrary to the interests of our customers, resulting in the delivery of inappropriate customer outcomes, customer detriment, regulatory censure, redress costs and/or reputational damage.	• The Group has a Conduct Framework, with supporting target outcomes and operating principles. Governance oversight and reporting are in place to ensure those objectives are met.
Operational Risk is the risk of loss resulting from inadequate or failed internal processes and systems or from external events. It includes legal risk, and operational risks associated with the execution of the strategy.	• The Group has an established Operational Risk Framework to enable identification, management and mitigation of operational risks. Risk categories are used to categorise and facilitate the consistent identification, assessment, mitigation, monitoring and reporting of risks and events.
Financial Crime Risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties.	• The Group has an established Financial Crime Framework supporting ongoing management, monitoring and mitigation of financial crime risk. The Group operates zero tolerance for internal fraud and has a control framework in place to mitigate this risk.
Strategic, Business and Financial Performance Risk is the risk of significant loss, loss of earnings and / or damage arising from business decisions that impact the long term interests of stakeholders or from an inability to adapt to external developments.	• The Board approves and oversees the execution of the Strategic Plan and associated strategic risk following the recommendations of the CEO and Executive Leadership Team. The Group's risk appetite statement (RAS) sets out the risk it is able and willing to take to achieve its strategic objectives.
People Risk is the risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way.	• Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. • The quality and continuity of our leadership is reviewed and assessed through succession planning and talent management activity.

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Emerging risks

The Group monitors the environment in which it operates to identify emerging risks that may have an impact on its operations and strategy. The top emerging risks considered by the Group which are also considered applicable to the Company are:

Emerging risks	Key mitigating actions
Geopolitical and macroeconomic environment	The Group is exposed to a variety of downstream risks resulting from the geopolitical environment, which have significant business relevance. With a predominantly UK based customer profile, the Group continues to monitor credit portfolios closely. Regular assessments of strategic plans, risk appetite and risk sensitivity analysis are undertaken to minimise and negate potential impacts.
The UK vote to leave the EU ('Brexit')	There is ongoing monitoring of the UK's withdrawal from the EU, with negotiations creating significant economic uncertainty and a potential negative impact for the UK macro economy. The Group continues to consider all potential consequences for its customers, products and operating model with mitigating actions in place as appropriate.
Consumer Credit	The Group maintains an awareness of the risk of significant credit losses occurring within a short time period which would have a detrimental impact on earnings and profitability. Credit risk strategies, appetite and tolerance levels are reviewed and approved by the Board and regular monitoring of the credit portfolio, including risk sensitivity analysis and reviews of asset quality metrics, is undertaken to ensure early identification and mitigation of potential risks. Unsecured consumer lending is an area of considerable regulatory focus and one where the Group is particularly alert to the potential regulatory, economic and customer impacts. New strategies have been delivered in response to revised regulatory requirements and reviews are underway to address further, future changes.
Cyber security and IT	With increasing levels of attempted cyber-attacks across the industry, the Group remains vigilant however acknowledges the potential risks of such attacks including service interruption, data loss, customer and financial detriment and reputational damage. The Group continues to enhance and invest in the control environment, recognising the changing cyber landscape, increased focus on digital capabilities and the changing risk profile of the business.
Financial crime (including cybercrime)	The Group in conjunction with the wider industry, continues to be subject to increasing fraud attacks. In response the Group continues to enhance its fraud defences with particular focus on behavioural analysis tools The management of financial crime remains a key area of regulatory focus and the Group continues to enhance its framework for monitoring, management and mitigation of financial crime.
Regulatory capital change	The Group, in common with the financial services industry as a whole, continues to face a significant agenda of regulatory and legislative change, including those pertaining to taxes. The Group continues to monitor the emerging requirements and ensure it is well placed to respond with effective regulatory change management. The Basel Committee published their final Basel III framework in December 2017. A key objective of the revisions is to reduce excessive variability of RWAs and improve the comparability of banks' capital ratios. Implementation dates range from 2022 to 2027 and the Committee has introduced transitional arrangements to ensure an orderly and timely implementation. The Group will be advised of its final MREL requirements by 2020 and the outcome may result in additional costs to those that have already been incorporated into the Strategic Plan.
Competition	The financial services industry is a highly competitive environment. The emergence of new entrants and regulatory initiatives, such as Open Banking, may lead to material changes in the future provision of financial services. The Group recognises both the risks and opportunities resulting from the changes and continues to develop strategies, products and technologies to ensure it can take strategic advantage where possible and mitigate any corresponding risks.

Clydesdale Bank Asset Finance Limited

Strategic Report (continued)

Outlook

Over the next twelve months the Company will continue to support CYBG PLC, the Company's ultimate parent, in delivering its targets and executing its strategy.

The Strategic Report was approved by the Board of Directors on 28 November 2018 and was signed on its behalf by:

GAVIN HALLIDAY

Director
28 November 2018

Clydesdale Bank Asset Finance Limited

Directors' Report

The Directors present their Annual Report and audited Financial Statements for Clydesdale Bank Asset Finance Limited ("the Company") for the year ended 30 September 2018.

Corporate governance

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

Profits and appropriations

The loss attributable to the shareholders for the year ended 30 September 2018 amounted to £72,000 (2017: profit £32,000). No dividend was paid during the year (2017: £Nil). The Directors do not propose a final dividend in respect of this financial year (2017: £Nil).

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management policies of the Company, in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' Report, has been included in the Strategic Report and is discussed in further detail in note 15.

Directors and Directors' interests

The current Directors are shown on page 1. Under the terms of the Articles of Association of the Company, no Directors are required to retire by rotation.

Appointments and resignations

Donald Kerr was appointed as a Director of the Company on 4 December 2017 and resigned on 21 November 2018.

Directors' interests

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

Directors' liabilities

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

Directors' remuneration

The Directors of the Company are remunerated as employees of CB PLC, and do not receive incremental remuneration in respect of their duties as Directors of the Company. Due to the activity of the Company, the Directors believe it would be appropriate to reasonably apportion part of their remuneration as being in respect of their duties to the Company. The aggregate emoluments of the Directors of the Company were £7,000 (2017: £6,000), this is recharged to the Company by CB PLC.

Employees

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

Political donations

No political donations were made throughout the year (2017: £Nil).

Significant contracts

Details of related party transactions, being the only significant contracts, are set out in note 14 of the financial statements.

Share capital

Information about share capital is shown in note 12. This information is incorporated into this report by reference.

Clydesdale Bank Asset Finance Limited

Directors' Report (continued)

Going concern

The Company's Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future.

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

Events after the balance sheet date

There have been no events which have occurred since 30 September 2018 that would require disclosure in the Directors' Report.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, 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 the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") 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 year. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- make an assessment of the Company's ability to continue as a going concern.

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

Clydesdale Bank Asset Finance Limited

Directors' Report (continued)

Auditors

In accordance with the provisions of the Companies Act 2006, as amended, the Company has dispensed with the laying of financial statements before a general meeting, the holding of annual general meetings and the obligation to appoint auditors annually.

The Directors who were members of the Board at the time of signing the report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

(i) to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

(ii) each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' Report was approved by the Board of Directors on 28 November 2018 and was signed on its behalf by

Gavin Halliday
Director
28 November 2018

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 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 8, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Clydesdale Bank Asset Finance Limited

Independent Auditor's Report to the Members of Clydesdale Bank Asset Finance Limited (continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Ernst & Young LLP

Nathan Pietsch (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor, Edinburgh

29 November 2018

Clydesdale Bank Asset Finance Limited

Statement of Comprehensive Income
For the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Finance lease income		25	40
Finance income		78	118
Other operating income	3	-	1
Total income		103	159
Other operating expenses	4	(192)	(8)
Total expenses		(192)	(8)
Loss on foreign exchange		-	(82)
(Loss)/profit on ordinary activities before tax		(89)	69
Tax credit/(charge)	5	17	(37)
Total comprehensive (loss)/income for the year		(72)	32

All material items dealt with at arriving at the profit/(loss) before tax for the above years relate to continuing activities.

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

Clydesdale Bank Asset Finance Limited

Balance Sheet
As at 30 September 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Finance lease receivables	8	478	676
Deferred tax asset	11	2	1
		480	677
Current assets			
Due from related entities	14	11,718	11,371
Finance lease receivables	8	232	309
Group relief receivable		15	-
		11,965	11,680
Total assets		12,445	12,357
Current liabilities			
Due to related entities	14	597	424
Group relief payable	10	-	13
Total liabilities		597	437
Shareholders' equity			
Share capital	12	6,000	6,000
Retained earnings		5,848	5,920
Total shareholders' equity		11,848	11,920
Total liabilities and equity		12,445	12,357

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

These financial statements were approved by the Board of Directors on 28 November 2018 and were signed on its behalf by:

Gavin Halliday
Director
28 November 2018

Company number: SC113775

Clydesdale Bank Asset Finance Limited

Statement of Changes in Equity
For the year ended 30 September 2018

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 October 2016	6,000	5,888	11,888
Total comprehensive income for the year	-	32	32
Balance as at 30 September 2017	**6,000**	**5,920**	**11,920**
Total comprehensive loss for the year	-	**(72)**	**(72)**
Balance as at 30 September 2018 attributable to parent	**6,000**	**5,848**	**11,848**

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

Clydesdale Bank Asset Finance Limited

Statement of Cash Flows
For the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Operating activities			
(Loss)/profit before tax		**(89)**	69
Adjustments for:			
Non-cash or non-operating items included in profit before tax			
Finance Income		**(78)**	(118)
Operating expenses		**266**	255
Changes in operating assets	**6**	**275**	1,046
Tax (paid) / received		**(13)**	274
Net cash provided by operating activities		**361**	1,526
Cash flows from investing activities		**-**	-
Cash flows from financing activites			
Interest paid		**(4)**	(4)
Net decrease in amounts due from related entities	**6**	**-**	1
Net cash used in financing activities		**(4)**	(3)
Net increase in cash and cash equivalents		**357**	1,523
Cash and cash equivalents at beginning of the year		**11,337**	9,814
Cash and cash equivalents at end of the year	**13**	**11,694**	11,337

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

Notes to the Financial Statements
For the year ended 30 September 2018

1. Basis of preparation

Reporting entity

Clydesdale Bank Asset Finance Limited (the Company) is incorporated under the Companies Act 2006 and registered in Scotland. The immediate parent company is CB PLC, a company incorporated under the Companies Act 2006 and registered in Scotland. The smallest group in which the results of the Company are consolidated is that headed by CB PLC. The ultimate parent undertaking and ultimate controlling party as at 30 September 2018 is CYBG PLC, a company incorporated under the Companies Act 2006 and registered in England and Wales. CYBG and its subsidiary undertakings comprise the CYBG Group, the largest group in which the results of the Company are consolidated. The company has not presented consolidated financial statements; relying on the exemption under s400 of the Companies Act 2006.

The financial statements of CYBG PLC may be obtained from CYBG PLC's registered office at 20 Merrion Way, Leeds, West Yorkshire, LS2 8NZ.

Statement of compliance

The financial statements have been prepared in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006.

The financial statements for the year ended 30 September 2018 were authorised for issue by the Board of Directors on 28 November 2018.

Basis of measurement

The financial information has been prepared under the historical cost convention, as modified by the application of fair value measurements.

Presentational Change

Balance sheet comparatives have been amended to confirm with the current period's presentation.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 2. In addition note 16 to the financial statements includes the Company's objectives, policies and processes for managing its capital and note 15 to the financial statements includes the Company's financial risk management objectives; and its exposure to liquidity risk.

The Company has access to financial resources through the support of CB PLC who will continue to fund the Company going forward. As a consequence, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors adopt the going concern basis in preparing the Annual Report and Financial Statements.

2. Accounting policies

The Company has adopted the following International Accounting Standards Board (IASB) pronouncements in the current financial year. Except where otherwise stated, these did not have a material impact on the Company's consolidated financial statements:

- amendments to IAS 12: 'Recognition of Deferred Tax Assets for Unrealised Losses' issued in January 2016 and effective for financial years beginning on or after 1 January 2017. The amendments clarify the requirements on the recognition of deferred tax assets for unrealised losses;
- amendments to IAS 7: 'Disclosure initiative' issued in January 2016 and effective for financial years beginning on or after 1 January 2017. The amendments to IAS 7: 'Statement of Cash Flows' require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from an entity's financing activities; and
- 'Annual Improvements to IFRS Standards 2014-2016 Cycle', issued December 2016 and effective for financial years beginning on or after 1 January 2017. The amendment relates to IFRS 12: 'Disclosure of Interests in Other Entities' and clarifies the scope of the standard.

New accounting standards and interpretations not yet adopted

IFRS 9 'Financial Instruments' (issued July 2014) and IFRS 15 'Revenue from Contracts with Customers' (issued September 2015) are both effective for financial years beginning on or after 1 January 2018. IFRS 16 'Leases' was issued in January 2016 and is effective for financial years beginning on or after 1 January 2019. Separate updates on the Company's implementation of these new standards can be found at the end of this section.

There are a number of other standards, interpretations and amendments that have not been applied by the Company in preparing these financial statements as they are either not available for adoption in the EU or are not mandatory for the Company as at 30 September 2018. The pronouncements, while relevant to the Company, are not anticipated to have a material impact and include:

- IFRIC interpretation 22: 'Foreign Currency Transactions and Advance Consideration', issued December 2016 and effective for financial years beginning on or after 1 January 2018. The new interpretation provides requirements on which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance;
- amendments to IFRS 9: 'Prepayment Features with Negative Compensation' issued in October 2017 and effective for financial years beginning on or after 1 January 2019. The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met, instead of these being measured at fair value through profit or loss. The Company expects to early adopt this amendment with effect from 1 October 2018 in line with the adoption of IFRS 9;
- IFRIC interpretation 23: 'Uncertainty over Income Tax Treatments', issued June 2017 and effective for financial years beginning on or after 1 January 2019. The new interpretation applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law and is not limited to actual ongoing disputes;
- 'Annual Improvements to IFRS Standards 2015-2017 Cycle'[(1)] issued December 2017 and effective for financial years beginning on or after 1 January 2019. The IASB has made amendments to the following standards: IFRS 3 'Business Combinations'; IFRS 11 'Joint arrangements'; IAS 12 'Income Taxes'; and IAS 32 'Borrowing Costs';
- amendments to References to the 'Conceptual Framework in IFRS Standards'[(1)], issued in March 2018 and effective for financial years beginning on or after 1 January 2020. The amendments were issued following the IASB's publication of a revised version of its Conceptual Framework for Financial Reporting and updates the references in IFRS standards to previous versions of the Conceptual Framework.

[(1)] Not yet endorsed by EU

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Updates on the implementation of IFRS 9: 'Financial Instruments', IFRS 15: 'Revenue from Contracts with Customers' and IFRS 16: 'Leases'

New accounting standards, interpretations and amendments not yet adopted

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed for use in the EU in November 2016. It is effective for accounting periods beginning on or after 1 January 2018 and replaces IAS 39 'Financial Instruments: Recognition and Measurement' for the Company with effect from 1 October 2018.

Full details of the Group's IFRS 9 implementation approach can be found in the consolidated financial statements for CYBG PLC.

Classification and measurement characteristics assessment.

The Company has determined that the financial assets disclosed on the balance sheet are held in a business model that is 'hold to collect' and that meet the requirements of the cashflow characteristics assessment; therefore, the Company will hold its financial assets at amortised cost.

To classify financial assets under IFRS 9 requires a two-stage process; (i) a business model assessment and (ii) a cashflow

Impairment

The most significant impact of IFRS 9 is the change in credit loss methodology, which moves from the 'incurred loss' basis under IAS 39 to an 'expected loss' basis in IFRS 9.

The single impairment loss methodology requires the calculation of either a 12-month expected credit loss (ECL) allowance where the financial asset has not experienced a significant increase in credit risk since origination or a lifetime ECL calculation where this significant increase has been observed. IFRS 9 does not define what is meant by a significant increase in credit risk since origination, with judgement required in determining how this should be interpreted; with a suite of both quantitative and qualitative factors developed that will determine whether there has been a significant increase in credit risk since origination.

The move to an ECL impairment methodology under IFRS 9 has been immaterial for the Company.

IFRS 15

IFRS 15 was issued in May 2014 and is endorsed for use in the EU. It is effective for financial years beginning on or after 1 January 2018 and will be adopted by the Company with effect from 1 October 2018. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The standard provides a principles based five-step model for recognition.

The majority of the Company's revenue is in the form of finance lease or interest income from financial instruments, which are not in scope for IFRS 15. Interest income from lease contracts is also not in scope. Fees and commissions together with certain elements of non-interest income do fall within the scope of the standard. The Company's current accounting policy is consistent with the requirements of IFRS 15, accordingly there is no material impact in relation to the timing of when the Company recognises revenues.

IFRS 16

IFRS 16 was issued in January 2016 and is endorsed for use in the EU. It is effective for financial years beginning on or after 1 January 2019 and will be adopted by the Group with effect from 1 October 2019. There are no substantial changes to the accounting for leases by lessors, nor for finance leases. The Company does not enter into lease arrangements as lessee. An implementation plan is in place and the Group continues to assess the impact of the standard.

2. Accounting policies (continued)

Currency of presentation

Functional and presentation currency

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

Transactions and balances

Initially, at the date of a foreign currency transaction, the Company records an asset, liability, expense or revenue arising from a transaction using the end of day spot exchange rate between the functional and foreign currency on the transaction date.

Subsequently, at each reporting date, the Company translates foreign currency monetary items at the closing rate. Foreign exchange differences arising on translation or settlement of monetary items are recognised in the statement of comprehensive income during the period in which the gains or losses arise. Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction. Foreign currency non-monetary items measured at fair value will be translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity.

Revenue recognition

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.

Fees

Lease 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 method.

Lease 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 fee is recognised as lease income. Other fees are recognised as revenue in the period the service is provided.

Borrowing costs

All borrowing costs are expensed in the period that they occur and are reported through finance costs.

Income tax

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

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

Current tax

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

Deferred tax

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

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

2. Accounting policies (continued)

Financial instruments

Recognition and derecognition of financial instruments

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

The Company classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement conveys a right to use the asset.

As lessor

Leases entered into by the Company as lessor, where the Company transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The net investment in the lease, which is comprised of the present value of the lease payments including any guaranteed residual value and initial direct costs, is recognised as a receivable.

The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Investment in controlled entities

The Company's investments in controlled entities are valued at cost or valuation less any provision for impairment.

Such investments are reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in controlled entities are recognised in the Statement of Comprehensive Income.

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 had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including related party overdrafts.

Cash and cash equivalents are classified as loans and receivables and measured at amortised cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Critical accounting estimates and judgements

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. The Company considers that the most significant use of accounting estimates and judgements relates to the recoverability of assets.

Notes to the Financial Statements (continued)

3. Other operating income

	2018 £'000	2017 £'000
Option fees	-	1
	-	1

4. Other operating expenses

	2018 £'000	2017 £'000
Bad debt recovery	(83)	(110)
Loss/(gain) on termination of lease agreements	2	(56)
Charge for loan impairment (note 9)	9	(80)
Other expenses	264	254
	192	8

Other expenses relate to management recharge of £264,000 (2017: £254,000) which includes an audit fee for the year of £5,242 (2017: £5,000).

5. Taxation

	2018 £'000	2017 £'000
Current tax		
UK corporation tax		
Current year	(16)	13
Prior year	-	24
	(16)	37
Deferred tax (note 11)		
Origination and reversal of temporary timing differences		
Current year	(1)	-
Income tax (credit)/charge reported in Income Statement	(17)	37

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

5. Taxation (continued)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are explained below:

	2018	2017
	£'000	£'000
(Loss)/profit on ordinary ativites before tax	**(89)**	69
Tax expense based on the standard rate of Corporation Tax in the UK of 19% (2017: 19.5%)	**(17)**	13
Effects of:		
Prior year adjustment	**-**	24
Total income tax (credit)/charge for the year	**(17)**	37

6. Notes to the Statement of Cash Flows

	2018	2017
	£'000	£'000
Operating assets		
(Increase)/decrease in:		
Finance lease receivables (note 8)	**275**	1,046
	275	1,046
Due from related entities		
Decrease/(increase) in:		
Amounts due from subsidiary (note 14)	**-**	1

7. Investment in subsidiaries

Controlled entities at 30 September 2018 and 2017	Nature of business	Country of incorporation and principal operations
CGF No.9 Limited	Leasing	Scotland

The registered office address of CGF No. 9 Limited is 30 St Vincent Place, Glasgow, G1 2HL. The Company holds 100% of the issued share capital of CGF No. 9 Limited (100,000 £1 ordinary shares), a company incorporated under the Companies Act 2006.

As at 30 September 2018 the recoverable amount in CGF No. 9 Limited remains £Nil.

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

8. Finance lease receivables

	Amounts receivable under finance leases	Unearned income	Net investment in finance lease receivables	Impairment provision	Present value of minimum lease payments
	£'000	£'000	£'000	£'000	£'000
2018					
Analysed as:					
Current					
Within one year	252	(17)	235	(3)	**232**
Non-current					
After more than one year and not later than 5 years	523	(53)	470	(8)	**462**
Later than 5 years	16	(0)	16	(0)	**16**
	539	(53)	486	(8)	**478**
As at 30 September 2018	791	(70)	721	(11)	**710**
2017	£'000	£'000	£'000	£'000	£'000
Analysed as:					
Current					
Within one year	340	(30)	310	(1)	309
Non-current					
After more than one year and not later than 5 years	649	(64)	585	(1)	584
Later than 5 years	99	(7)	92	-	92
	748	(71)	677	(1)	676
As at 30 September 2017	1,088	(101)	987	(2)	985

Clydesdale Bank Asset Finance Limited

Notes to the Financial Statements (continued)

9. Impairment losses on credit exposures

	Individual 2018 £'000	Collective 2018 £'000	Total 2018 £'000	Individual 2017 £'000	Collective 2017 £'000	Total 2017 £'000
Opening balance	-	2	2	78	4	82
Charge/(credit) for the year	-	9	9	(78)	(2)	(80)
Closing balance	-	**11**	**11**	-	2	2

	2018 £'000	2017 £'000
Amounts included in:		
Finance lease receivables (note 8)	**11**	2

10. Group relief payable

	2018 £'000	2017 £'000
Group relief payable	-	13

11. Deferred Tax

	2018 £'000	2017 £'000
Deferred tax asset:		
Opening balance	1	1
Deferred taxation recognised in the Income Statement	1	-
Closing balance	**2**	1

The deferred tax asset is attributable to the following items:

Short term timing differences	**2**	1
Other	-	-

The statutory rate of UK corporation tax is 19% from 1 April 2017 and as enacted in Finance Act 2016 will fall to 17% from 1 April 2020. In accordance with IAS 12, these rates are taken into account in assessing the value at which assets are expected to be realised and liabilities settled.

Notes to the Financial Statements (continued)

12. Share capital

	Number	£'000
Authorised:		
Ordinary shares of £1 each		
At 30 September 2018 and 2017	50,000,000	50,000

	Number	£'000
Allotted, called up and fully paid:		
Ordinary shares of £1 each		
At 30 September 2018 and 2017	6,000,000	6,000

13. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprises the following balances due within three months at inception:

	2018 £'000	2017 £'000
Cash at bank (note 14)	11,718	11,371
Bank overdraft (note 14)	(24)	(34)
	11,694	11,337

14. Related party transactions

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

	2018 £'000	2017 £'000
Amounts due from related entities		
Current assets		
Cash at bank - held with immediate parent (CB PLC)	11,718	11,371
	11,718	11,371
Amounts due to related entities		
Current liabilities		
Bank overdraft - held with immediate parent (CB PLC)	24	34
Amounts due to immediate parent (CB PLC)	573	390
	597	424
Profit and loss transactions with related entities during the year:		
Finance income - with immediate parent (CB PLC)	78	118
Recharges from immediate parent (CB PLC)	264	254

15. Management of risk

Risk management framework

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, CB PLC, and of its ultimate parent entity CYBG PLC. The Company has continued to advance and strengthen its risk capabilities, evolving in line with industry developments and best practice.

Risk principles

The Company operates within the Risk Management Framework ("RMF") of the Group. The Group's approach to risk management is based on a principle that risk management capability must be embedded within the business' front line teams to be effective. This overriding principle embodies the following concepts:

- commercial decisions are made on the basis of proactive consideration of risk and the potential impact on customers;
- business managers use the RMF to support decision making involving risk and reward trade offs; and
- employees are responsible for risk management in their day to day activities.

Risk strategy

The Group has a clearly defined strategy in order to manage and mitigate risk in the daily course of its business. The strategy consists of:

- ensuring all principal and emerging risks are identified and assessed;
- ensuring risk appetite is clearly articulated and influences the Group's strategic plan;
- a clearly defined risk culture which emphasises risk management throughout all areas of the business whilst maintaining independent oversight;
- ongoing analysis of the environment in which the Group operates to proactively address potential risk issues as they arise; and
- supporting commercial decisions and people with appropriate risk processes, systems and controls.

Risk Appetite Statement ("RAS")

'Risk Appetite' is defined as the level and types of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The RAS articulates and supports communication of the Group's appetite to stakeholders.

Risk management framework

The Group identifies and manages risk using the RMF, which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk. CYBG Board oversight of risk management is facilitated by the CYBG Boards' Risk and Audit Committees. The CYBG Board approves the Group's overall governance, risk and control frameworks and risk appetite.

Risk Culture

Central to the Group's risk culture is the fair treatment of customers and meeting obligations to stakeholders, including shareholders and employees. The Board and senior management are responsible for offsetting and clearly communicating a strong risk culture through their actions and words, and proactively addressing any identified areas of weakness or concern.

Underpinning the RMF and at the heart of the Group's culture, is the concept of personal accountability for risk management at source. This is enabled through a risk management accountability model and a formal delegation framework through which employees are able to make risk based decisions.

15. Management of risk (continued)

Risk policies and procedures

The policy framework is a key component of the Group's RMF providing structure and governance for the consistent, effective management of policies. Policy statements and supporting policy standards define the minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

Three Lines of Defence

Effective operation of a Three Lines of Defence model is integral to the Group's approach to risk management and is based on an overriding principle that risk capability must be embedded within the first line of defence teams to be effective. This principle embodies the following concepts:

- commercial decisions are made on the basis of proactive consideration of risk and the impact on customers;
- risk management activities are focused on enhancing sustainable business performance;
- management must use the RMF to support decision making involving risk and reward trade offs;
- regular assessments are undertaken to confirm the effectiveness of the Risk and Control Frameworks in relation to both the current and emerging risk profile; and
- risk management responsibilities are clearly understood by all employees when carrying out their day to day activities.

Control is exercised through a clearly defined delegation of authority, with communication and escalation channels throughout the Group.

For further detail on the Group RMF please refer to the Risk Report within the CYBG PLC Annual Financial Report.

Credit risk

Credit risk is the potential that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and / or products that the Company offers (primarily finance leases).

The Company controls the levels of credit risk it takes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical, product and industry segments. The management of credit risk within the Company is achieved through both approval and monitoring of individual transactions, regular asset quality analysis of the performance of the various credit risk portfolios.

Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Assets	**2018** **£'000**	2017 £'000
Finance lease receivables (note 8)	**710**	985
Due from related entities	**11,718**	11,371
	12,428	12,356

The assets provided to customers under finance leases are the Company's main source of collateral and means of mitigating loss in the event of default. There are no undrawn commitments to which the Company is exposed. The credit quality of assets is disclosed within the consolidated financial statements of its immediate parent, CB PLC.

15. Management of risk (continued)

Cash flows payable under financial liabilities by contractual maturity

The table below illustrates when the cash flows fall due for all future financial obligations within the Company.

2018	**Less than 3 months or call £'000**	**3 to 12 months £'000**	**No specific maturity £'000**	**Total £'000**
Liabilities				
Due to related entities	**597**	**-**	**-**	**597**

2017	Less than 3 months or call £'000	3 to 12 months £'000	No specific maturity £'000	Total £'000
Liabilities				
Due to related entities	424	-	-	424

16. Capital management overview

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

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

The Company manages the following items as capital:

	2018 £'000	2017 £'000
Share capital	**6,000**	6,000
Retained earnings	**5,848**	5,920
	11,848	11,920

17. Events after the balance sheet date

There have been no events which have occurred since 30 September 2018 that would require disclosure in the financial statements of the Company.