



Clydesdale and Yorkshire Banks announce interim results 2008

Interim Results 6 months to 31 March 2008

London, 9 May 2008: National Australia Bank Group, owner of the Clydesdale and Yorkshire Banks, today released interim results for its UK operations, for the 6 months to 31 March 2008.

2008 Highlights: Comparison with 6 months to 31 March 2007

Profits

- Profit before tax up 17% to £194m
- Cash earnings up 18% to £139m

Performance

- Retail deposits and longer term funding covered 85% of lending (up from 83%)
- Tier I capital Ratio 7.5%; Total capital ratio 11.4%
- Five consecutive halves of flat costs
- Cost Income ratio improved 2% on the March 2007 half
- Cash earnings per average FTE increase by 19%, up £5k to £31k
- Clydesdale Bank PLC's (CB) long term credit ratings were reaffirmed as AA- by Standard & Poors and maintained at Aa3 by Moodys and AA- by Fitch

Quality growth

- Average retail deposit volumes increased 17% to £17.5bn
- Average gross loans and acceptances increased 31% to £30.6bn
- Strong asset quality with flat provisions charge

Lynne Peacock, Chief Executive, said:

"Representing a stand-out trading performance in turbulent market conditions, we have delivered another set of excellent results.

"Operating a traditional banking business with a consistent strategic direction and disciplined approach to risk, we have achieved strong volume growth in deposits and high quality lending whilst maintaining one of the strongest capital ratios in UK banking.

"Retail performed well in challenging conditions whilst business banking through our maturing integrated Financial Solutions Centres again delivered an outstanding performance.

"We are very proud of our achievements over the past three years. Well prepared for the challenging market conditions in which we operate, our business continues to demonstrate strong sustainable growth and profit momentum."

Chief Executive's Review

Consistent strategic direction

The robust foundations we have been building over the past three years have undoubtedly provided a strong platform for growth. Well prepared for the challenging market conditions in which we operate, we have delivered an excellent trading performance by maintaining a consistent and disciplined strategic direction.

By sticking to the sound principles of a traditional banking model, our growth has been achieved in a very balanced way with a prudent and disciplined approach to risk, liquidity and funding.

With planned restraint in unsecured lending, our strong deposit and volume growth is complemented by an effective use of capital. Exceptionally strong cost control and ongoing business efficiency improvements have delivered five consecutive halves of flat costs.

Strong & Sustainable Quality Growth

Our UK operations have delivered an excellent set of results which represent a first-rate trading performance in turbulent market conditions. Outperforming our UK peers, profit before tax increased 17% to £194 million while post tax earnings rose 18% to £139 million.

Reflecting our continued focus, average retail deposit volumes grew by 17% (£3 billion) primarily driven by the strong momentum in the Financial Solutions Centres (up 22%) as well as further good performance in the Retail network (up 9%).

Balance sheet growth in key product segments outperformed the market. Business lending volumes grew by 28% (£3 billion) and a carefully managed approach to mortgage lending produced volume growth of 16% (£1.6 billion).

The planned strategic reduction in unsecured lending resulted in a 7% decline in credit card and personal loan balances in the half. These areas now represent less than 6% of total assets.

Our maturing iFS network had an outstanding half, building business in established and new locations. iFS deposits grew by 22% whilst revenues and lending volumes both increased by 27%. Retail banking has again performed well, despite challenging market conditions, with revenues up 2%. Growth continues to be achieved in a sustainable and very balanced way.

Whilst the current conditions in the financial markets could not have been foreseen, over the past three years the UK business has made itself more resilient by diversifying its lending, funding and geographical spread.

Prudent and Diversified Funding

Since outlining our strategy in 2005, we have taken a consistently prudent and disciplined approach to liquidity and funding. At 31 March, Clydesdale Bank held a portfolio of liquid assets totalling £4.5 billion.

We continue to pursue strong diversity in our wholesale funding in both source and duration. External short-term funding equates to just 21% of total wholesale funds. Retail deposits and longer term funding now covers 85% of lending (excluding securitised assets) compared to 83% in the March 2007 half year.

This strong liquidity and funding position enabled Clydesdale Bank PLC's long term credit rating to be reaffirmed as AA- by Standard & Poors and maintained at Aa3 by Moodys and AA- by Fitch. As a result of these strengths there was no need to enter the markets at disadvantageous terms over the half year.

Strong Asset Quality

Asset quality remains strong with a well-secured and diversified portfolio. The UK business does not include any direct sub-prime or self-certified lending. Balance sheet growth has been achieved whilst maintaining key asset quality measures and flat provisions.

Enhanced Business Efficiency

Operating expenses were flat for the fifth consecutive half, underpinning a 2% improvement in the cost to income ratio to 58%. Increased efficiency was also demonstrated with cash earnings per average FTE increasing by 19%, up £5k to £31k.

Infrastructure Investment & Delivery

Investment continued on systems and processes with total cash spend of £40 million in the half, compared to £43 million in the prior corresponding period. Investment was directed into three broad categories; efficiency and sustainable revenue, infrastructure and compliance.

October 2007 saw another significant milestone in the ongoing re-engineering of the business with the Teller programme completing deployment into Clydesdale Bank. Investment in the front office included the pilot launch of a new Business Internet Banking Channel.

Development of a new second Data Centre is ahead of schedule. The new data centre building was handed over in March 2008 and the migration of over 1,000 pieces of equipment from our existing second Data Centre is on target for the end of June. The Faster Payments project is on schedule for the industry go-live date of 27 May 2008.

The Retail branch refurbishment programme is well under way with around a quarter of branches now benefiting from the program. An extensive training program has been delivered to the branch manager population with the focus on raising individual performance.

A new look website for Clydesdale Bank (cbonline.co.uk) was launched in March with the Yorkshire Bank website (ybonline.co.uk) due to launch in May.

Employee and Community Commitment

A three-year salary deal was successfully negotiated with the trade union Unite in the period. This provides our people and company with stability and assurance at a time of economic uncertainty.

Our business continues to invest in the communities in which we operate. Two high profile sponsorships - Scottish Premier League football and the National Trust – helping to promote our brands whilst engaging customers and employees. Clydesdale Bank is also supporting the Scottish Team for the 2008 Youth Commonwealth Games.

Over the last three years, our support for the British Heart Foundation has raised over £500,000 through a range of employee-led activities. From 1 February, we have been working with a new charity partner - Help the Hospices – to help provide care for terminally ill patients.

Supporting our goal of being carbon neutral by September 2010, a number of initiatives have been implemented. These include re-engineering printed branch reports and enabling personal computers to be powered off from a remote location to reduce wasted energy and save costs. Smart Boxes, which measure energy consumption, have been introduced across our property network to further identify opportunities to reduce energy consumption.

External Recognition

The business has again been recognised externally for the success of its investment and customer service commitment.

Clydesdale Bank was named "Best Mortgage Lender in Scotland" for the fourth year running and Yorkshire Bank "Best Regional Mortgage Lender" by Your Mortgage magazine for the ninth year running.

Our IT team recently won IT team of the year in the UK Financial Services Sector Technology Awards. This was in recognition of the journey we have made in the last three years.

Clydesdale and Yorkshire Bank were listed in the publication "SuperBrands" for the progress made in Corporate and Social Responsibility.

Business Environment

We are well prepared for the challenging market conditions in which we operate and a very careful approach is being maintained. Our UK operations operate a resilient, sound and well diversified business model with a prudent and disciplined approach to risk, liquidity and funding.

The business is built on solid foundations and is starting to outperform the market. Across the business it is well placed to continue the growth story. iFS is maturing beyond the start up phase but still has strong potential. The margin contraction is slowing and the cost to income ratio is falling. These foundations provide an excellent platform for the future

Lynne Peacock
Chief Executive

Performance Highlights (March 2008 v March 2007)

Cash earnings increased 18% (£21 million) on the prior comparative period reflecting higher income, flat expenses and stable charges to provide for doubtful debts. The result includes £5.5 million arising from the transfer of mid-corporate customers from nabCapital and a £15 million additional cost resulting from the impact of the current market turbulence.

Average retail deposit volumes grew 17% (£3 billion) in a highly competitive market reflecting our continued focus on this area. This was driven by sustained momentum in the Financial Solutions Centres, where average deposit growth was 22%. Retail network volumes grew 9% (£1 billion).

Average gross loans and acceptances, including a £2 billion nabCapital asset transfer, increased 31% (£7 billion) on the prior comparative period. Business lending volumes grew by 27% (£3 billion) driven by the success of the integrated Financial Solutions proposition and its increasing customer base. A managed approach to mortgage lending has resulted in 16% (£1.6 billion) mortgage volume growth mainly from the offset mortgage product. Exposure to credit card and personal loan lending has again reduced in line with our strategy, with average balances declining 7% over the half. These two business areas now represent less than 6% of total assets.

Net interest income increased 8% reflecting the strong balance sheet growth partially offset by margin contraction.

The net interest margin decreased from 3.16% to 2.66%. This margin contraction was largely driven by the strategic changes in product mix with increased growth in business and mortgage lending and a reduced proportion of unsecured consumer balances. Market conditions impacted margins resulting in a 13 basis point reduction.

Other operating income decreased 4% over the prior corresponding period as a result of the sale of our lease operating business in December. Underlying other operating income was flat. It should be noted that much of the fee income generated in iFS is treated as Net Interest Income under international accountancy standards (IFRS).

Operating expenses were flat for the fifth consecutive half. Investment costs, including the recruitment of additional 88 FTE in iFS, additional depreciation arising from investment spend in prior periods and general wage inflation were offset by reduced back office FTE, efficiency savings and process improvements.

The cost to income ratio at 58.3% improved by 2% (200 basis points) over the March 2007 half, reflecting the continued improvements in revenue and cost performance.

The charge for doubtful debts remained stable against the prior corresponding period. As previously signalled, the increase in collective provisions from growing business lending volumes has been mitigated by the strategic shift away from unsecured personal lending and actions taken over the past two years have improved asset quality in these areas. Additionally improved arrears management has ensured that the value of accounts 90 days past due has remained stable despite a growing book.

The Office of Fair Trading investigations into the operation of the market and its own assessment of the level of charges are ongoing. On 24 April 2008, the High Court issued its judgment on the first stage of the test case involving a number of banks. Further Court hearings will be required before the test case process is concluded. The next hearing is scheduled for 22 May 2008 and will decide (subject to any appeal) what the next steps will be. The waiver issued by the FSA on 27 July 2007 continues until 26 July 2008.

Clydesdale and Yorkshire Bank Financial Overview

	Half Year to				
	Mar 08 £m	Sep 07 £m	Mar 07 £m	Mar 08 v Sep 07%	Mar 08 v Mar 07%
Net interest income	433	413	400	4.8	8.3
Other operating income	179	183	186	(2.2)	(3.8)
Net operating income	612	596	586	2.7	4.4
Operating expenses	(358)	(361)	(358)	0.8	0.0
Underlying profit	254	235	228	8.1	11.4
Charge to provide for bad and doubtful debts	(60)	(57)	(62)	(5.3)	3.2
Cash earnings before tax	194	178	166	9.0	16.9
Income tax expense	(55)	(53)	(48)	(3.8)	(14.6)
Cash earnings ⁽¹⁾	139	125	118	11.2	17.8
Average Volumes (£bn)					
Gross loans and acceptances	30.6	25.8	23.4	18.6	30.8
Interest earning assets	32.6	27.8	25.4	17.3	28.3
Total assets	35.1	31.4	28.1	11.8	24.9
Retail deposits	17.5	16.2	14.9	8.0	17.4
Performance Measures ⁽¹⁾					
Cash earnings on average assets	0.79%	0.79%	0.84%	0bps	(5bps)
Net interest margin	2.66%	2.96%	3.16%	(30bps)	(50bps)
Cost to income ratio	58.3%	59.9%	60.3%	160bps	200bps
Cash earnings per average FTE (£'000s)	31	28	26		
FTEs (spot)	8,966	8,850	9,046		

(1) All performance measures are based on cash earnings excluding fair value and hedge ineffectiveness

Capital and Funding Measures

CB Tier I capital ratio	7.5%	7.8%	8.1%
CB Total capital ratio	11.4%	12.6%	13.4%
UK Retail deposit & longer term funding cover	85%	91%	83%

About the National Australia Bank Group

An international financial services organisation providing a comprehensive and integrated range of financial products and services, NAB is one of the world's top 30 financial services companies and serves 8 million banking and over 2.3 million wealth management customers. The Group is organised around regional businesses - National Australia Bank in Australia; Bank of New Zealand; Yorkshire Bank and Clydesdale Bank in the UK.

For more information

National Australia Bank	NAB Group results are available on www.nabgroup.com.au	
London	Barry Gardner	0207 710 1983 / 07789 171 614
	Stuart Neill	0207 710 1983 / 07767 788 765
Glasgow	Ewan McCulloch	0141 242 4362 / 07713 265 532
Leeds	Alison Puente	0113 807 2701 / 07717 547 781