Interim Condensed Consolidated Financial Statements.

Clydesdale Bank PLC.

For the six months ended 31 March 2011.

Company Number: SC001111.

Clydesdale Bank

CLYDESDALE BANK PLC

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 MARCH 2011

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CLYDESDALE BANK PLC
Officers and Professional Advisers

Directors	**Chairman:**	Sir Malcolm Williamson #
	Non-executive:	Jonathan Dawson* # Sir David Fell KCB* Richard Gregory OBE* # Roy Nicolson* # Elizabeth Padmore Peter Wood*
	Executive:	Lynne Peacock (Chief Executive Officer) # Cameron Clyne John Hooper # David Thorburn #
		* Member of the European Boards' Audit Committee # Member of the European Boards' Risk Committee
UK Executive Committee		Lynne Peacock, Chief Executive Officer David Thorburn, Executive Director John Hooper, Executive Director Scott Butterworth, Chief Financial Officer (appointed 1 March 2011) Debbie Crosbie, Chief Information Officer Dean Cutbill, Products & Marketing Director Eric Gunn, Chief Risk Officer Steven Martin, Head of Strategic Development Kevin Page, Operations Director Steve Reid, Retail Director Michael Webber, Head of Legal Services and Company Secretary Arthur Willett, Human Resources Director Mike Williams, Executive General Manager iFS
Secretary		Michael Webber
Registered Office		30 St Vincent Place Glasgow, G1 2HL
Bankers		National Australia Bank Limited
Auditor		Ernst & Young LLP 1 More London Place London, SE1 2AF

CLYDESDALE BANK PLC
Chairman's Statement

Sir Malcolm Williamson, Chairman

Clydesdale Bank PLC has delivered a positive set of underlying results, despite the ongoing challenges facing the UK economy and banking sector. Excluding provisions for payment protection insurance redress, the Bank remained profitable demonstrating that the underlying business continues to be sound. During this financial year, the UK began showing more reliable signs of recovery from recession, but economic growth was slow and uncertain. Against this backdrop, the Bank has continued to support its customers and to strengthen its balance sheet.

The results, on an underlying basis, demonstrated the continued effectiveness of our conventional banking model. Offering a broad range of products and services to our business and retail customers, we have responded to changing customer demand efficiently. Further enhancements have been made to the iFS proposition and new customer opportunities have been identified and taken.

Capital has been increased during the half, demonstrating our continued focus on maintaining balance sheet strength. As regards funding and liquidity, the balance sheet continues to reflect prudent choices. Our emphasis on funding through customer deposits has borne good results during the year and we have maintained a strong liquid assets portfolio.

Although operating expenses continue to be tightly controlled, we maintained our investment spend during the half, in order to develop our business and enhance our customer offering.

Our bad and doubtful debt position has improved, which is reflective of the tentative economic recovery and continued close engagement with our customers. A managed rebalancing of the lending book and close monitoring of asset quality has strengthened the balance sheet over the course of the half.

Following the outcome of the Payment Protection Insurance judicial review, and subsequent decision by the British Bankers' Association not to appeal the judgement, the Bank decided that it would be prudent to make an additional provision for estimated customer redress arising from current and potential future claims. This has resulted in an overall loss in the first half of 2011.

We continue to perform effectively as a strong and committed Bank, dedicated to our customers and focused on maintaining our stable approach while positioning ourselves for the future.

Malcolm Williamson

Sir Malcolm Williamson
Chairman
27 **May 2011**

Lynne Peacock, Chief Executive Officer

Overview

The Clydesdale Bank PLC ("the Bank") together with its subsidiary undertakings (which together comprise "the Group") is the United Kingdom arm of the National Australia Bank Limited ("NAB"). The Group operates under the Clydesdale and Yorkshire Bank brands. It offers a range of banking services for both personal and business customers through retail branches, integrated Financial Solutions (iFS) centres, direct banking and brokers.

Strategic Highlights & Business Developments

Against a backdrop of economic uncertainty, the Bank has delivered a creditable performance. Group operating profit after tax of £45m on a pro forma basis was up £32m on the prior comparative period.

The Bank continues to demonstrate its support to customers and is on track to meet its £10 billion, two year gross new lending pledge, with new lending of £3.3 billion in the half. This is in addition to £4.7 billion of new lending last year.

Average business lending and mortgage growth both outperformed the market, although demand for credit in the UK remains subdued. The slight reduction in lending balances was driven by lower commercial property exposures.

The Bank has continued to perform well and expanded its small business proposition during the period, which will broaden the products and services on offer to this important segment. This has been well received in the market and will build on an already strong customer base. Further, **the direct proposition has been improved**, which will increase efficiency in direct sales for retail customers.

The iFS strategy is evolving with **investment in the payments capability** and continued enhancement of the mid-corporate offering, whilst maintaining **tight management of pricing, expenses and risk**. The business lending book is now reaching the desired mix of commercial property and trading businesses.

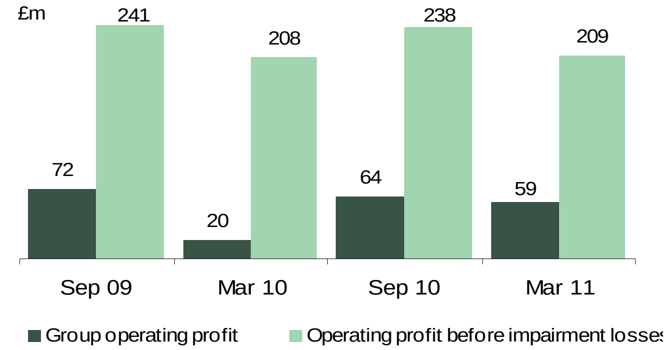
Levels of customer engagement remained strong through the period.

The focus on the balance sheet has continued and liquid asset volumes have been conservatively maintained. The Customer Funding Index was held at a strong level (81.9%), in the face of intense market competition. The **Stable Funding Index remains higher than before the market dislocation (93.8%)**, although the Term Funding Index decreased to 11.9% during the half. This is due to the approaching maturity of some wholesale funding raised in 2009.

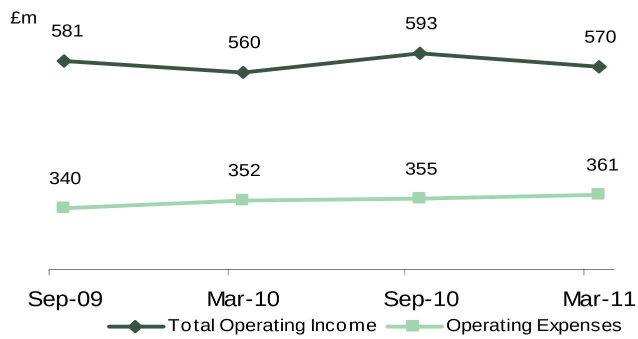
Asset quality continues to be closely monitored with the Bank working with customers during this period of economic uncertainty.

Strategic Highlights & Business Developments (continued)

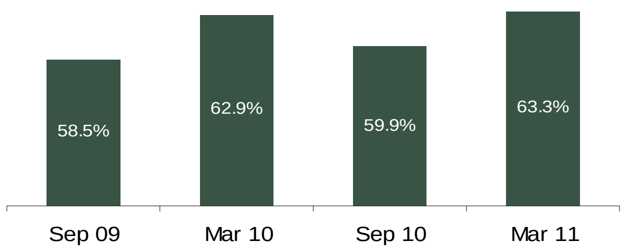
Pro Forma* Operating Profit Before Impairment Losses and Group Operating Profit



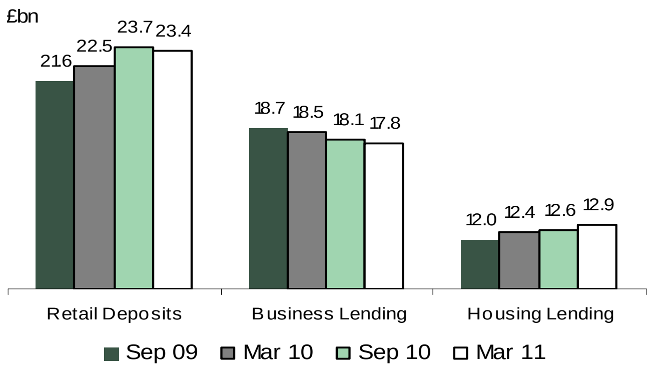
Pro Forma* Income and Expense Trends



Pro Forma* Cost to Income Ratio



Loans and Deposits Half Year Average



* The pro forma financial analysis table is shown on page 7. The table includes the efficiency, quality and sevice initiatives cost as a significant item whereas this is shown as a component of operating expenses in the income statement on page 17.

Operating Environment

The UK economy remains challenging, and this has been reflected in the major economic indicators over the past 6 months.

UK GDP contracted by 0.5% in the final quarter of 2010, resulting in overall growth for the year of 1.3%. However, the Office for National Statistics estimates that the severe weather experienced after the coldest December in 100 years contributed to the majority of the GDP contraction and the underlying movement was relatively flat. The unemployment rate was 7.7% in the quarter to March 2011 and there has been little movement in this position over the past year.

The housing market remains subdued with prices relatively flat. Commercial property prices are still well below their June 2007 peak, although stable on the prior period. However, there are marked regional variations with London in particular showing improvement.

Inflation remains above the Bank of England (BOE) target. The consumer price index (CPI) was 4.0% in March and the retail price index (RPI) was 5.3%. The CPI rate has now been one percentage point or more above the 2% BOE target for 16 months. The main factors driving this are the VAT rise from 17.5% to 20.0% in January 2011, the weakness of the pound and recent rises in commodity and oil prices.

The spread between Base Rate and LIBOR has been relatively stable in the first half (average spread between Base Rate and the 90 day rolling average of 3 month LIBOR was 25 basis points).

The outlook for the remainder of the year remains subdued, with the general consensus forecasting UK GDP growth of 1.5% for 2011. This outlook is also reflected in unemployment and housing prices, which are not anticipated to move significantly in the short term.

Operating Environment (continued)

The issues in respect of the Payment Protection Insurance claims matter are well understood and have received significant exposure in the media. Following publication on 20 April 2011 of the High Court's judgement regarding the Financial Service Authority's Policy Statement on Payment Protection Insurance complaints handling (PS 10/12) and the subsequent decision by the British Bankers' Association on 9 May 2011 not to appeal the decision, the Bank decided that it would be prudent to make provision for current and potential future claims. The Financial Statements include an amount of £120m to meet the costs associated with these claims.

There are a number of factors which will determine the eventual level of future claims that the Bank is unable to predict with any degree of certainty. The provision reflects an assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of uncertain factors, including how many PPI claims will be made against the Bank, for what value, and the prospects of mis-selling being established in relation to those claims. The final amount required to settle the potential liability is therefore uncertain. The Bank continues to keep the matter under review.

It was announced in the March 2011 budget that the corporation tax rate would now decrease by 2% rather than the previously announced 1%. This means that in the 2011-12 tax year the corporation tax rate will fall to 26% and decrease to 23% by 2014-15. This has impacted on the Bank’s deferred tax assets and liabilities, resulting in a modest benefit to profit.

As previously indicated, the Bank will be subject to the Bank Levy in the current financial year. The relevant legislation has not yet been enacted, and the charge will not be incurred until the end of September 2011. On a pro forma basis, based on the current balance sheet and legislative expectations, the charge for the Bank would be around £4m.

Customer, Employees and Community

Customer

The Bank is committed to high standards of customer service, adding value and supporting both customers and employees. During the half, acquisition levels continued to show an improvement and are up 18% compared to the start of the financial year.

Employees

Strong support for community and charitable activities was maintained, with 20% of employees donating through our payroll giving programme. Since its launch just over 3 years ago the charity partnership with Help the Hospices has raised over £1.5 million. In addition, our employees remain supportive of local communities and projects through their participation in volunteering days.

Community

The Bank continues to support the communities in which it operates through its sponsorship of both the Clydesdale Bank Scottish Premier football league and the England and Wales Cricket Board’s ‘40-over’ competition.

Awards

Reflecting strong levels of customer engagement and successful business investment programmes, the Bank received a number of prestigious awards in the period. The Technology team’s Enterprise Data Foundation programme won Compliance Project of the Year at the Financial Sector Technology Awards. Strong customer service and products saw two Your Mortgage Awards in 2010/11, (Yorkshire Bank being named ‘Best Regional Mortgage Lender’ and Clydesdale Bank named ‘Best Mortgage Lender in Scotland’).

Pro Forma* Financial Analysis

	Half Year to			Change	
	Mar 11 £m	Sep 10 £m	Mar 10 £m	Mar 11 v Sep 10 %	Mar 11 v Mar 10 %
Net interest income	**489**	474	486	3.2%	0.6%
Non interest income (1)	**81**	119	74	(31.9%)	9.5%
Total operating income	**570**	593	560	(3.9%)	1.8%
Total operating expenses	**(361)**	(355)	(352)	(1.7%)	(2.6%)
Operating profit before impairment losses	**209**	238	208	(12.2%)	0.5%
Impairment losses on credit exposures (2)	**(150)**	(174)	(188)	13.8%	20.2%
Group operating profit	**59**	64	20	(7.8%)	large
Tax expense	**(14)**	(17)	(7)	(17.6%)	large
Pro forma operating profit after tax	**45**	47	13	(4.3%)	large
Significant items:					
Efficiency, quality and service initiatives	**-**	(13)	(6)		
Profit on sale of properties	**-**	3	-		
Financial Services Compensation Scheme levy	**(4)**	-	(2)		
Payment protection insurance	**(116)**	(11)	(6)		
Tax on significant items	**32**	6	5		
(Loss)/profit for the period	**(43)**	32	4	large	large
Average Volumes (£bn)					
Gross loans and acceptances (3)	**32.6**	32.7	32.9	(0.2%)	(0.9%)
Interest earning assets	**41.2**	41.1	40.6	0.3%	1.5%
Total assets	**44.2**	44.1	43.8	0.3%	1.0%
Retail deposits (4)	**23.4**	23.7	22.5	(1.2%)	4.0%
Pro Forma* Performance Measures					
Pro forma operating profit after tax on average assets	**0.20%**	0.21%	0.06%	(1bps)	14bps
Net interest margin	**2.38%**	2.31%	2.40%	7bps	(2bps)
Cost to income ratio	**63.3%**	59.9%	62.9%	(340bps)	(40bps)
Pro forma operating profit after tax per average FTE (£'000s)	**16**	17	5		
FTEs (spot) (5)	**5,665**	5,611	5,531		

* The pro forma financial analysis table includes the efficiency, quality and sevice initiatives cost as a significant item whereas this is shown as a component of operating expenses in the income statement on page 17.

(1) With effect from 1 October 2010, the methodology for the valuation of the loans and advances held at fair value was revised. The effect of this revision at 31 March 2011 is a £40m reduction to the carrying value. If the methodology had not been revised, the pre-tax consolidated income during the current period would have been increased by this amount. It is impractical to estimate the impact of the effect on future periods, principally due to uncertainties over levels of lending, the margins achieved and variability of long-term risk-free interest rates.
(2) Impairment losses on credit exposures excludes the credit risk adjustment on loans at fair value through profit or loss. This credit risk adjustment is included in non interest income.
(3) Gross loans and acceptances include gross loans and advances to customers, loans designated at fair value through profit or loss and due from customers on acceptances.
(4) Retail deposits include current accounts, savings accounts and term deposits and business retail deposits.
(5) The FTE numbers above disclose the staff remunerated directly by the Group but exclude employees working within other National Australia Group Europe Limited subsidiaries who provide support services to the Group. The number of staff employed in the UK Region at 31 March 2011 was 8,684.

March 2011 v March 2010

A loss after tax of £43 million was incurred in the half compared to a profit of £4 million in the March 2010 half. Excluding the charge for PPI redress costs and provision and other significant items, the **pro forma operating profit after tax** at £45 million increased by £32 million over the March 2010 half. Higher net interest income and lower charges to provide for bad and doubtful debts were partly offset by higher expenses.

Average gross loans and acceptances decreased by £0.3 billion (0.9%), primarily due to subdued demand for credit and managed rebalancing of the lending book. Within this, commercial property lending fell by 11.0% and exposure to credit card and personal lending fell by 5%. Lending balances for mortgages and trading businesses grew by 4.0% and 0.9% respectively. The business book is now reaching the desired mix of commercial property and trading businesses.

Average mortgage lending and business lending both outperformed the market, with actual mortgage growth of 4.0%, compared to the market increase of 0.5%, and a 3.8% reduction in business lending, compared to a 6.8% contraction in the market (Source: Bank of England - March 2011).

During the half, the Bank continued to support customers by advancing £3.3 billion of new loans, of which £2.1 billion comprised business lending and £1.1 billion were mortgage advances.

In a highly competitive market **average retail deposits** increased by 4.0% (£0.9 billion), which was above the industry average growth rate of 3.8% (Source: Bank of England - March 2011).

The net interest margin decreased by 2 basis points due to lower earnings on capital, lower deposit margins and margin dilution from the increase in low yielding liquid assets as the balance sheet was strengthened. This was partially offset by higher lending margins from repricing activities.

Net interest income increased by £3 million (0.6%).

Non interest income increased by £7 million (9.5%). This was broadly driven by increased fee income, including higher regular fee income and higher service charges and lower credit provisioning on fair valued tailored business loans. This was partly offset by hedge ineffectiveness losses in the period.

Operating expenses increased by £9 million (2.6%) over the March 2010 half which was below the level of inflation. The increase was driven by personnel costs (including the annual pay review). The Bank has invested in personnel to meet customer demand.

The **cost to income** ratio at 63.3% showed a 40 basis point increase, reflecting higher operating expenses.

Impairment losses on credit exposures have decreased by £38 million (20.2%) over the March 2010 half, primarily due to the reduction in provisions associated with business lending. This reflects the stage of the economic recovery post recession. Asset quality remains closely monitored.

March 2011 v September 2010

Pro forma operating profit after tax for the period was £45m, £2m lower than in the September 2010 half. This reflects a decrease in non-interest income and higher expenses partly offset by an increase in net interest income and a lower charge for bad and doubtful debts.

Average gross loans and acceptances at £32.6 billion reflected subdued market conditions. Gross new advances of £3.3 billion in the period were offset by the appetite for customers to reduce their levels of borrowing and the rebalancing of the portfolio, notably the commercial property book.

Average mortgage lending and business lending both outperformed the market, with actual mortgage growth of 2.4%, compared to the market increase of 0.3%, and a 1.7% reduction in business lending, compared to a 4.8% contraction in the market (Source: Bank of England - March 2011).

Average retail deposits decreased by 1.2% (£0.3 billion). This reduction was managed to reflect the movement in the lending book while maintaining a strong Consumer Funding Index (CFI).

March 2011 v September 2010 (continued)

The net interest margin increased by 7 basis points. This was the result of higher lending margins partially offset by lower earnings on capital.

As a consequence, **net interest income** increased by £15 million (3.2%).

Non interest income decreased by £38 million (31.9%) as a result of fair value movements including credit risk adjustment and estimation changes on tailored business loans and hedge ineffectiveness losses.

Operating expenses increased by £6 million (1.7%), below the level of inflation. This reflected increases due to higher personnel costs partly offset by a reduction in discretionary costs as the Bank demonstrated rigorous expense control.

The **cost to income ratio** at 63.3% increased by 340 basis points, reflecting lower net operating income and an increase in expenses.

Impairment losses on credit exposures decreased by £24 million (13.8%) when compared to the September 2010 half primarily due to lower business lending provisions. This area remains under close scrutiny by management.

Other Items

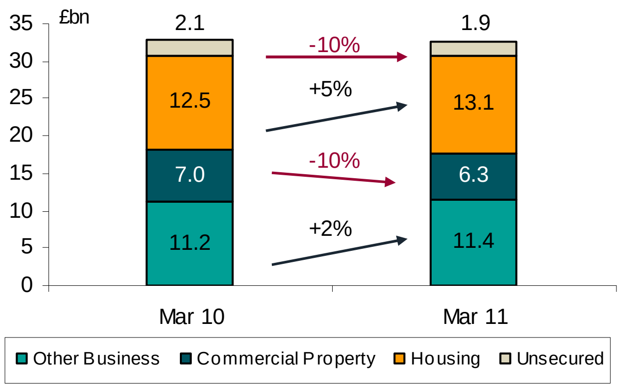
Asset Quality

Rebalancing of the lending portfolio has continued, with overall spot balances remaining stable at £32.7 billion at March 2011 and September 2010.

In the half, there has been growth of £0.3 billion in mortgage lending, with a reduction in business lending of £0.2 billion and a reduction of £0.1 billion in unsecured personal lending. Mortgage lending growth has been achieved without any weakening of credit criteria and with an average approved loan to value ratio of 63%.

The balance of loans outstanding on commercial property has now fallen by 18% from £7.7 billion at September 2009 to £6.3 billion as at the end of March 2011. This represents 19% of gross loans and acceptances (36% of the business book). Of this, approximately 80% was investment lending and 20% development lending. The largest commercial property loan represents about 1.9% of the commercial property portfolio or 0.4% of the total portfolio. The portfolio is broadly spread around the UK.

Lending Book (spot)



As a whole, the portfolio remains well secured and diversified, both geographically and by lending type. The average rating of new business lending continues to improve. However, the market is challenging for both trading and property businesses alike, with the flow of new files referred for close monitoring and review falling in number, but rising in exposure value.

The ratio of total provisions to gross loans and acceptances has improved from 1.50% to 1.56% as a result of growth in balance sheet provisions and a stable portfolio.

Asset Quality (continued)

	As at		
	Mar 11	Sep 10	Mar 10
Specific provision for doubtful debts (£m)	**98**	74	77
Collective provision for doubtful debts (£m)	**277**	288	290
Specific provision on loans at fair value (£m)	**37**	26	19
Collective provision on loans at fair value (£m)	**97**	105	84
90+ DPD assets (£m)	**262**	265	292
Gross impaired assets (£m) (1)	**898**	796	713
90+ DPD plus gross impaired assets to gross loans and acceptances (1) (2)	**3.55%**	3.24%	3.07%
Specific Provision/gross impaired assets (1)	**15.1%**	12.6%	13.5%
Net write-offs to gross loans and acceptances (annualised) (2)	**0.85%**	1.03%	0.96%
Total provision as a percentage of net write-offs (3)	**185%**	147%	150%
Total provision to gross loans and acceptances (2) (3)	**1.56%**	1.50%	1.43%
Bad and doubtful debt charge to credit risk weighted assets	**1.16%**	1.39%	1.47%

	As at		
Impairment provisions on credit exposures (£m) (4)	**Mar 11**	Sep 10	Mar 10
Business lending (£m)	**294**	282	280
Retail lending (£m)	**81**	80	87
	375	362	367

	Half year to		
Impairment losses on credit exposures (£m) (4)	**Mar 11**	Sep 10	Mar 10
Business lending (£m)	**108**	155	139
Retail lending (£m)	**42**	19	49
	150	174	188
Of which:			
Specific (£m)	**161**	176	170
Collective (£m)	**(11)**	(2)	18
	150	174	188

(1) Gross impaired assets for March 2011, September 2010, March 2010 include £48m, £42m and £65m gross impaired fair value assets respectively.
(2) Gross loans and acceptances: includes gross loans and advances to customers, loans designated at fair value through profit and loss and due to customers on acceptances.
(3) Total provision to gross loans and acceptances includes the credit risk adjustments on fair value loans
(4) Impairment provisions and impairment losses on credit exposures exclude the credit risk adjustment on loans at fair value through profit or loss.

The total 90+ DPD balances have remained broadly stable through the period at £262 million in March 2011 compared to £265 million in September 2010. Within this, the residential mortgages portfolio has proved resilient, with 90+ DPD arrears held at the September 2010 level of 0.76%. The average Loan to Value ratio of the mortgage book has increased from 51.9% in September 2010 to 53.5% in March 2011 on an indexed valuation basis. Over 80% of mortgages approved in the period had a loan to value ratio below 80%.

The increase in gross impaired asset balances reflects the impact of the ongoing difficult economic and market conditions. Property business remains the dominant component of the gross impaired asset portfolio and has shown modest growth in the half to March 2011. Whilst there has been some stabilisation in property prices, the market for disposing of these assets is still operating below normal levels. This has resulted in assets remaining in the impaired asset category longer than has been previously experienced.

The collective provision balance has fallen to £277 million in March 2011 from £288 million at September 2010 and £290 million at March 2010. This reflects both a reduction in the size and improvement in the loss rate of the personal loan portfolio.

The charge for bad and doubtful debts fell over the period, reflecting lower specific and collective provisions. The business book generated the largest proportion of provisions and losses. The level of commercial property and construction losses has slowed. However, trading business losses have increased as the SME sector, in particular hospitality, is affected by the prolonged slowdown. Retail product provisions have also decreased year on year, with the low interest rate environment assisting affordability, particularly for mortgages, and continued reduction in the personal loan portfolio.

Asset quality measures remain under close management to ensure that the actions in place remain appropriate.

Capital & Funding Position

Regulatory capital

	6 months to 31 Mar 2011 £m	12 months to 30 Sept 2010 £m	6 months to 31 Mar 2010 £m
Actual capital			
Core Tier 1 capital	**2,428**	2,479	2,389
Preference shares	**300**	100	100
Tier 1 capital	**2,728**	2,579	2,489
Tier 2 capital	**1,565**	1,462	1,450
Total capital held	**4,293**	4,041	3,939
Risk weighted assets	**28,361**	28,662	28,223
	%	%	%
Tier 1 ratio	**9.6**	9.0	8.8
Total capital ratio	**15.1**	14.1	14.0

The capital amounts above are stated after standard regulatory deductions. Risk weighted assets are calculated under the standardised approach.

Regulatory capital consists of Tier 1 capital, which includes share capital, share premium and retained earnings. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, provisions and revaluation reserves. FSA adjustments have been included in both Tier 1 and Tier 2 capital.

The Bank's Tier 1 capital ratio (FSA basis) improved to 9.6% as at March 2011 from 9.0% at September 2010. This was primarily due to an additional £200 million of preference share capital that was issued by Clydesdale Bank. Capital requirements are kept under regular review and additional capital will be raised as required to ensure the capital base remains appropriate.

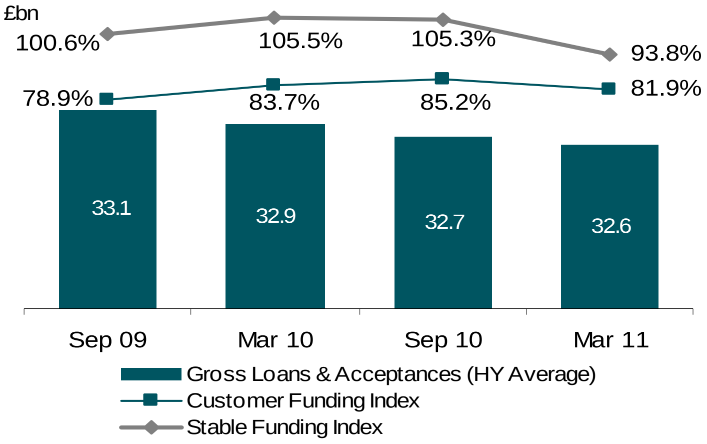
Clydesdale Bank PLC Consolidated Diversity of Funding

	As at		
	Mar 11	Sep 10	Mar 10
Retail deposits	**62%**	64%	61%
External short term	**16%**	14%	16%
Subordinated debt	**3%**	3%	3%
Structured finance	**2%**	2%	3%
Securitisation	**4%**	5%	5%
Parent company	**7%**	6%	6%
Medium term notes	**6%**	6%	6%
CB PLC Funding	**100%**	100%	100%

Retaining a conservative level of retail deposits continues to be a priority for the Bank. Wholesale funding also remains strong. The wholesale funding sources and mix remain diverse - short and long-term, parent company funding, medium term notes, securitisation and covered bonds. As existing wholesale funding matures and is replaced with more expensive new funding, the overall margin paid on wholesale funding is expected to increase.

Capital & Funding Position (continued)

Stable Funding Index



The Customer Funding Index was held at a strong level (81.9%), in the face of intense market competition. The Stable Funding Index remains higher than before the market dislocation (93.8%). The decline in the Term Funding Index decreased to 11.9% during the half. This reflects the approaching maturity of some wholesale funding raised in 2009.

The Bank held a portfolio of liquid assets totalling £9.8 billion* as at March 2011 compared to £10.1 billion as at September 2010. This portfolio includes UK Government gilts, Bank of England Reserve Account, treasury bills, note cover required to cover Clydesdale's notes in circulation and lending to other banks. Clydesdale Bank's diverse funding mix of short and long-term wholesale funding, parent company funding, securitisation and Covered Bonds has created this strong liquidity position.

** £1.5 billion of note cover and £1.3 billion of Credit Guarantee Scheme debt securities are included in this amount but are excluded from FSA regulatory liquidity.*

Investment Spend

The Bank continued to invest in the business at a similar level to prior periods. Investment was focused on regulatory and compliance activities, efficiency and simplification and revenue generation.

The delivery of an enhanced customer proposition continued to be a significant focus in the first half of 2011. Key achievements during the half included successfully migrating the first phase of printing services to a new provider. The completion of the outsourcing of technical infrastructure and the operational management of the ATMs was completed in February with the migration of debit card services to follow in the second half of the year.

Building on the success of the Bank's current Business Internet Banking platform, the pilot of the BusinessOnline product commenced in February. BusinessOnline offers extended functionality and payment types to Business and Corporate customers.

A programme to deliver improved online and telephone sales channels was mobilised in the first half of the year. This programme is expected to be in place by the end of the financial year.

In addition to ensuring that the Bank's systems remain fully regulatory compliant and adequately supported, there is a continued drive to identify new opportunities to gain business benefits from future investment.

Clydesdale Bank PLC to NAB UK Banking Reconciliation

The NAB Group publishes segmental financial results of which UK Banking forms one segment. The segmentation is based on geographical lines, the exception being the wholesale banking business which is treated as a global business segment in its own right. Certain lines of the wholesale banking business are written on the CB PLC balance sheet and therefore this business is not included in the UK Banking results. The UK wealth management business, which operates through separate legal entities, is also included in the UK Banking results but is not part of CB PLC. Additionally, the UK Banking result excludes fair value and hedge ineffectiveness income and significant items in determining cash earnings. The table below sets out the reconciliation of the income statements of the two views.

Period ended 31 March 2011

	CB PLC £m	Wealth Management £m	Wholesale Banking £m	Fair value and hedge ineffectiveness £m	Other* £m	NAB UK Banking £m
Profit/(loss) on ordinary activities before tax / Cash earnings before tax	(61)	19	(14)	59	98	101
Profit/(loss) attributable to shareholders / Cash earnings after tax	(43)	13	(10)	44	73	77
Total assets (spot)	42,962					43,595

* The other category includes £100m additional provision for payment protection insurance costs announced by the Bank on 19 May 2011.

Events after the balance sheet date

Following the publication on 20 April 2011 of the High Court's judgement regarding Payment Protection Insurance complaints, the Bank decided that it would be prudent to provision for the payment of redress to customers where such payment is appropriate. While there remain significant uncertainties in estimating the final cost to resolve this matter an amount of £120m has been set aside to meet current and future claims and associated costs.

LPeacock

Lynne Peacock
Chief Executive Officer
27 May 2011

CLYDESDALE BANK PLC
Statement of Directors' Reponsibilities

The Directors confirm that this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) as adopted by the European Union. The interim report includes condensed consolidated Financial Statements and a fair review of the important events that have occurred in the first six months of the financial year and their impact on the Financial Statements.

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

The Bank's strategy is to maintain a conservative approach to liquidity and funding which is demonstrated through improvements to the Tier 1 and Total Capital ratios and maintaining a diverse funding base.

Michael Webber

Michael Webber
Secretary
27 May 2011

Independent Review Report to the members of Clydesdale Bank PLC

Introduction

We have been engaged by Clydesdale Bank PLC to review the condensed set of Financial Statements in the half-yearly financial report for the six months ended 31 March 2011 which comprises Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, and the related explanatory notes 1 to 37. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Financial Statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

As disclosed in note 1, the annual Financial Statements of the company are prepared in accordance with International Financial Reproting Standards as adopted by the European Union. The condensed set of Financial Statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of Financial Statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the half-yearly financial report for the six months ended 31 March 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP

Ernst &Young LLP
London
31 May 2011

1 The maintenance and integrity of the Clydesdale Bank PLC web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

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CLYDESDALE BANK PLC
Interim Consolidated Income Statement
for the 6 months ended 31 March 2011

	Note	**6 months to 31 Mar 2011 (unaudited) £m**	6 months to 31 Mar 2010 (unaudited) £m As restated	12 months to 30 Sept 2010 (audited) £m As restated
Interest receivable and similar income		**702**	698	1,392
Interest expense and similar charges		**(213)**	(212)	(432)
Net interest income	4	**489**	486	960
Gains less losses on financial instruments at fair value		**(47)**	(43)	(49)
Other operating income		**128**	117	242
Non interest income	5	**81**	74	193
Total operating income		**570**	560	1,153
Personnel expenses		**(131)**	(123)	(251)
Depreciation expense		**(10)**	(11)	(21)
Efficiency, quality and service initiatives		**-**	(6)	(19)
Other operating expenses		**(220)**	(218)	(435)
Total operating expenses before impairment losses	6	**(361)**	(358)	(726)
Operating profit before impairment losses		**209**	202	427
Impairment losses on credit exposures	17	**(150)**	(188)	(362)
Group operating profit before tax		**59**	14	65
Payment protection insurance	25	**(116)**	(6)	(17)
Profit on sale of land and buildings		**-**	-	3
Special Financial Services Compensation Scheme levy	30	**(4)**	(2)	(2)
(Loss)/profit on ordinary activities before tax		**(61)**	6	49
Tax credit/(expense)	7	**18**	(2)	(13)
(Loss)/profit for the period attributable to the equity holders of the parent		**(43)**	4	36

Prior period comparatives have been restated to reallocate PPI redress costs from other operating income to significant items in line with the current period disclosure.

All material items dealt with in arriving at the profit on ordinary activities after tax for the above periods relate to continuing activities.

CLYDESDALE BANK PLC
Interim Consolidated Statement of Comprehensive Income
for the 6 months ended 31 March 2011

	Note	**6 months to 31 Mar 2011 (unaudited) £m**	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
(Loss)/profit for the period		**(43)**	4	36
Other comprehensive income/(losses)				
Change in available for sale investments reserve	8	**-**	-	(11)
Taxation	7	**-**	-	3
Change in cash flow hedge reserve	8	**(98)**	-	36
Taxation	7	**27**	-	(9)
Actuarial gains/(losses) on defined benefit pension plans	8	**142**	(70)	(65)
Taxation	7	**(45)**	19	10
Taxation on employee share compensation	7	**(1)**	-	(1)
Other comprehensive income/(losses) net of tax		**25**	(51)	(37)
Total comprehensive losses for the period net of tax		**(18)**	(47)	(1)
Attributable to:				
Equity holders of the parent		**(18)**	(47)	(1)

CLYDESDALE BANK PLC
Interim Consolidated Balance Sheet
at 31 March 2011

	Note	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Assets				
Cash and balances with central banks	10	**3,852**	4,088	4,070
Due from related entities	11	**3,013**	3,046	2,839
Due from other banks	12	**16**	12	11
Investments - available for sale	13	**1,797**	1,645	2,262
Investments - held to maturity	13	**-**	25	-
Other financial assets at fair value	14	**5,024**	5,520	5,396
Derivative financial instruments	15	**556**	851	719
Loans and advances to customers	16	**27,332**	27,001	26,981
Due from customers on acceptances		**7**	6	8
Current taxes		**35**	16	10
Property, plant and equipment	19	**151**	159	157
Investment properties	20	**86**	37	77
Property Inventory	21	**29**	29	31
Investments in controlled entities and associates		**2**	2	2
Deferred tax assets	22	**110**	157	144
Other assets		**952**	876	953
Total assets		**42,962**	43,470	43,660
Liabilities and Equity				
Due to other banks	23	**1,397**	1,397	1,373
Other financial liabilities at fair value	14	**661**	705	896
Derivative financial instruments	15	**55**	106	117
Due to customers	24	**27,808**	28,261	28,434
Liabilities on acceptances		**7**	6	8
Provisions	25	**131**	16	27
Due to related entities	11	**3,893**	3,486	3,386
Bonds and notes	26	**4,031**	4,691	4,409
Defined benefit pension liabilities	32	**117**	360	317
Deferred tax liabilities	22	**16**	43	43
Other liabilities		**2,114**	2,034	2,103
Total liabilities		**40,230**	41,105	41,113
Equity (parent entity interest)				
Share capital	27	**1,142**	792	942
Share premium account	28	**243**	243	243
Merger reserve	28	**338**	338	338
Share option reserve	28	**9**	10	1
Asset revaluation reserve	28	**2**	2	2
Available for sale investments reserve	28	**6**	14	6
Cash flow hedge reserve	28	**59**	103	130
Retained earnings	28	**933**	863	885
Total equity		**2,732**	2,365	2,547
Total liabilities and equity		**42,962**	43,470	43,660

These financial statements were approved by the Board of Directors on 27 May 2011 and were signed on its behalf by:

Malcolm Williamson

Sir Malcolm Williamson
Chairman

LMPeacock

Lynne Peacock
Chief Executive Officer

CLYDESDALE BANK PLC
Interim Consolidated Statement of Changes in Equity
at 31 March 2011

	Note	Share capital £m	Share premium account £m	Merger reserve £m	Share option reserve £m	Asset revaluation reserve £m	Available for sale investments reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 October 2009		632	243	338	2	2	14	103	916	**2,250**
Profit for the period		-	-	-	-	-	-	-	4	**4**
Other comprehensive losses		-	-	-	-	-	-	-	(51)	**(51)**
Total comprehensive losses for the period		-	-	-	-	-	-	-	(47)	**(47)**
Dividends paid - preference shares		-	-	-	-	-	-	-	(6)	**(6)**
Shares issued - ordinary		160	-	-	-	-	-	-	-	**160**
Share options granted		-	-	-	8	-	-	-	-	**8**
At 31 March 2010 (unaudited)		**792**	**243**	**338**	**10**	**2**	**14**	**103**	**863**	**2,365**
Profit for the period		-	-	-	-	-	-	-	32	**32**
Other comprehensive income/(losses)		-	-	-	(1)	-	(8)	27	(4)	**14**
Total comprehensive income/(losses) for the period		-	-	-	(1)	-	(8)	27	28	**46**
Dividends paid - preference shares		-	-	-	-	-	-	-	(6)	**(6)**
Shares issued - ordinary		150								**150**
Share options granted			-	-	9	-	-	-	-	**9**
Share options settled		-	-	-	(17)	-	-	-	-	**(17)**
At 30 September 2010 (audited)[(1)]		**942**	**243**	**338**	**1**	**2**	**6**	**130**	**885**	**2,547**
Loss for the period		-	-	-	-	-	-	-	(43)	**(43)**
Other comprehensive income/(losses)		-	-	-	(1)	-	-	(71)	97	**25**
Total comprehensive income/(losses) for the period		-	-	-	(1)	-	-	(71)	54	**(18)**
Dividends paid - preference shares		-	-	-	-	-	-	-	(6)	**(6)**
Shares issued - preference		200	-	-	-	-	-	-	-	**200**
Share options granted		-	-	-	9	-	-	-	-	**9**
At 31 March 2011 (unaudited)	27, 28	**1,142**	**243**	**338**	**9**	**2**	**6**	**59**	**933**	**2,732**

[(1)] The closing balances at 30 September 2010 have been audited, however the individual movements in the period are unaudited.

CLYDESDALE BANK PLC
Interim Consolidated Statement of Cash Flows
for the 6 months ended 31 March 2011

	Note	**6 months to 31 Mar 2011 (unaudited) £m**	6 months to 31 Mar 2010 (unaudited) £m As restated	12 months to 30 Sept 2010 (audited) £m
Operating Activities				
(Loss)/profit on ordinary activities before tax		**(61)**	6	49
Adjustments for:				
Non cash or non operating items included in profit before tax	33	**(146)**	(314)	(690)
Changes in operating assets	33	**(234)**	893	1,119
Changes in operating liabilities	33	**(1,008)**	1,235	1,380
Interest received		**661**	485	1,070
Interest paid		**(137)**	(85)	(134)
Tax (paid)/received		**(19)**	-	(10)
Net cash (used in)/provided by operating activities		**(944)**	2,220	2,784
Cash flows from investing activities				
Interest received		**16**	17	26
Purchase of available for sale investments		**-**	(104)	(735)
Cash inflow from matured held to maturity investments		**-**	614	639
Proceeds from sale of investments		**466**	-	4
Purchase of property, plant and equipment (including investment property and property inventory)		**(18)**	(13)	(73)
Proceeds from sale of property, plant and equipment (including investment property and property inventory)		**7**	5	17
Net cash provided by/(used in) investing activities		**471**	519	(122)
Cash flows from financing activities				
Interest received		**11**	-	15
Interest paid		**(64)**	(59)	(115)
Proceeds from ordinary shares issued	27	**-**	160	310
Proceeds from redeemable preference shares issued	27	**200**	-	-
Redemption of bonds and notes		**(378)**	(596)	(877)
Share options settled		**-**	-	(17)
Net (increase)/decrease in amount due from related entities		**(174)**	(1,075)	(868)
Net increase/(decrease) in amount due to related entities		**489**	263	180
Dividends paid	9	**(6)**	(6)	(12)
Net cash provided by/(used in) financing activities		**78**	(1,313)	(1,384)
Net (decrease)/increase in cash and cash equivalents		**(395)**	1,426	1,278
Cash and cash equivalents at beginning of the period		**3,891**	2,613	2,613
Cash and cash equivalents at end of the period	33	**3,496**	4,039	3,891

Comparative balances at 31 March 2010 including non cash adjustments and changes in operating assets and liabilities have been restated to provide enhanced disclosure.

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

Clydesdale Bank PLC is incorporated in the United Kingdom and registered in Scotland.

In these Financial Statements Clydesdale Bank PLC is referred to as the "Bank". The ultimate parent undertaking, and ultimate controlling party is National Australia Bank Limited ("NAB"), a company incorporated in the State of Victoria, Australia. This company also heads the largest group in which the results of the Bank are consolidated. The smallest group in which the results of the Bank are consolidated is that headed by National Australia Group Europe Limited ("NAGE") which is incorporated and registered in England and Wales.

The Interim Condensed Consolidated Financial Statements have been prepared on a going concern basis in accordance with IAS 34 as issued by the International Accounting Standards Boards (IASB) and adopted by the European Union.

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Bank's Annual Report and Consolidated Financial Statements for the year ended 30 September 2010 except as detailed in note 2.

The information in the Interim Condensed Consolidated Financial Statements does not include all of the disclosures required by International Financial Reporting Standards (IFRS) in full annual Financial Statements, and should be read in conjunction with the Bank's Consolidated Financial Statements for the year ended 30 September 2010.

The information in these Interim Condensed Consolidated Financial Statements does not constitute statutory accounts within the meaning of Section 396 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2010, which contained an unqualified audit report under Section 495 of the Act and which did not contain any statements under Section 498 of the Act, have been delivered to the Registrar of Companies in accordance with Section 446 of the Act.

Going concern
The Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. In addition the 30 September 2010 Annual Report & Consolidated Financial Statements note 45 includes the Bank's objectives, policies and processes for managing its capital and note 44 to the Financial Statements includes the Bank's financial risk management objectives.

The Directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of this financial report.

2. Accounting policies

Basis of preparation

The preparation of Financial Statements 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 Group 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 only significant change to the bases upon which estimates have been determined, compared to those applied at 30 September 2010, relates to loans and advance held at fair value. With effect from 1 October 2010, a more conservative approach to the valuation of loans and advances held at fair value has been adopted. The impact of this change in methodology is fully disclosed in note 5.

The Group adopted the following significant standards from 1 October 2010 none of which have had a material impact:

Improvements to IFRSs 2009
Improvements to IFRSs 2009, issued 16 April 2009, makes numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvement project. Certain amendments are effective for financial periods beginning on or after 1 January 2010.

Improvements to IFRSs 2010
Improvements to IFRSs 2010, issued 6 May 2010, makes numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvement project. Certain amendments are effective for financial periods beginning on or after 1 July 2010.

Amendment to IFRS 1 - Additional Exemptions
Amendments to IFRS 1 Additional Exemptions for First-time Adopters, issued 23 July 2009, is effective for financial periods beginning on or after 1 January 2010. This amendment does not apply as IFRS has already been adopted in a previous reporting period.

Amendment to IFRS 1 - IFRS 7 Disclosure Exemptions
Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, issued 28 January 2010, is effective for financial periods beginning on or after 1 July 2010. This amendment does not apply as IFRS has already been adopted in a previous reporting period.

Amendments to IFRS 2 - Group Cash-settled Share-based Payment
Amendment to IFRS 2 - Group Cash-settled Share-based Payment Transactions, issued 18 June 2009, is effective for financial periods beginning on or after 1 January 2010. The main feature of the amendment clarifies the accounting for group cash-settled share-based payment transactions.

Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues
Amendment to IAS 32 Classification of Rights Issue, issued 8 October 2009, is effective for financial periods beginning on or after 1 February 2010. The main feature of the Amendment requires that when certain conditions are met, rights issues (i.e. rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer, are classified as equity regardless of the currency in which the exercise price is denominated.

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, issued 26 November 2009, is effective for financial periods beginning on or after 1 July 2010. The main feature of this Interpretation is to provide guidance on the accounting treatment by an entity, a debtor, for when the terms of a financial liability are renegotiated and result in the entity (debtor) issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

2. Accounting policies (continued)

At the balance sheet date the IASB and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following pronouncements which are not effective for this financial year. The Group does not anticipate that their adoption will have a material impact on the Group's Financial Statements in the period of initial application.

Standards		***Effective Date: Annual periods beginning on or after***
Various	Improvements to IFRSs 2010	1 January 2011
IFRS 1	Amendments to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (i)	1 July 2011
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures (i)	1 July 2011
IFRS 9	Financial Instruments (i)	1 January 2013
IFRS 10	Consolidated Financial Statements (i)	1 January 2013
IFRS 11	Joint Arrangements (i)	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities (i)	1 January 2013
IFRS 13	Fair Value Measurement (i)	1 January 2013
IAS 12	Amendments to IAS12 Deferred Tax: Recovery of Underlying Assets (i)	1 January 2012
IAS 24	Revised - Related Party Disclosures	1 January 2011
Interpretations		
IFRIC 14	Amendment - Prepayment of a Minimum Funding Requirement	1 January 2011

(i) This has not yet been endorsed by the European Union.

3. Segment information

The Group's operating and reportable segments are operating units engaged in providing different products or services and whose operating results are regularly reviewed by the entity's chief operating decision maker. Financial information for each identified segment is regularly reported to the UK Executive Committee for the purposes of evaluating performance and resource allocation. The businesses are managed separately as each requires a strategy focused on the specific services provided for the economic, competitive and regulatory environment in which it operates.

The Group's business is organised into two principal operating segments: Business Banking (including Financial Solutions centres) and Retail Banking (consisting of the retail branch networks and small business customers). The Group's central functions are Finance, Risk, Banking Delivery Services, Strategy, Legal, CEO Office Support, Funding and Treasury, Human Resources, and other unallocated functions which are not considered to be separate reportable operating segments. For management reporting purposes only, Retail also includes the insurance business of National Wealth Management Europe Holdings Limited, which is a controlled entity of NAB and not part of the Group.

Business Banking

Business Banking comprises the Integrated Financial Solutions (iFS) operating segment which provides a range of banking products and services including loans and finance, day to day banking, international services, treasury solutions and corporate and structured finance.

Retail Banking

Retail Banking provides a range of banking products and services including current accounts, mortgages, overdrafts, personal loans, savings accounts, insurances and financial planning.

Business Banking, Retail Banking and Central Functions together represent Total UK Banking, the aggregate results of which is also regularly provided to the UK Executive Committee. Wholesale Banking by virtue of its size, is not considered a reportable segment for the purposes of this note.

The accounting policies of the operating segments are consistent with those described in note 2 to the Financial Statements at 30 September 2010.

The Group evaluates each operating segment's performance on the basis of cash earnings. Cash earnings represents the net profit attributable to members of the Company, adjusted for certain non-cash items, primarily fair value adjustments and efficiency initiative costs, distributions, and significant items. The segment information provided below is prepared on a going concern basis, such that operations that do not form part of the continuing Group are excluded from all periods presented.

Revenues, expenses and tax directly associated with each operating segment are included in determining their result. Transactions between operating segments are based on agreed recharges between segments.

Segment revenue represents revenue directly attributable to a segment and a portion of the Banking Group's revenue that can be allocated to a segment on a reasonable basis. Segment revenue includes Net Interest Income and Other Operating Income and includes transfer pricing adjustments to reflect inter-segment funding arrangements. Segment profit represents operating profit before unrealised fair value gains or losses on financial instruments and income or expenses which are one-off in nature or are not part of the Banking Group's core business operations. Lending assets and deposit liabilities represent additional key metrics that are regularly provided to the UK Executive Committee.

Reporting changes during the current period

The format of the segmental information reported at 31 March 2010 has been changed to align with 30 September 2010, and current period disclosures.

The Retail Banking segment now includes credit card income and costs from the customer engagement team which were transferred from Products and Marketing previously reported within the Central and Other Functions segment. The prior period comparatives have been restated accordingly.

3. Segment information (continued)

Major Customers

Revenues from no single customer amounted to greater than 10% of the Group's revenues.

Geographical areas

The Group has no material areas outwith the UK and thus no secondary geographical area information is presented.

The following tables provide revenue and profit information regarding the Group's principal operating segments.

Operating Segments 6 months ended 31 March 2011 (unaudited)	**Business £m**	**Retail £m**	**Central and Other Functions £m**	**UK Banking £m**
Net interest income	211	211	59	481
Other operating income	96	84	(46)	134
Operating income	307	295	13	615
Operating expenses	(77)	(59)	(227)	(363)
Impairment losses on credit exposures	(108)	(38)	(5)	(151)
Group operating profit/(loss)	122	198	(219)	101
Tax expense	(32)	(51)	59	(24)
Cash earnings after tax	**90**	**147**	**(160)**	**77**
Non-cash earnings items after tax	(34)	-	(10)	(44)
Profit/(loss) after tax	**56**	**147**	**(170)**	**33**
Average assets	**23,678**	**8,313**	**12,797**	**44,788**

Operating Segments 6 months ended 31 March 2010 (unaudited)	**Business £m**	**Retail £m**	**Central and Other Functions £m**	**UK Banking £m**
Net interest income	197	218	75	490
Other operating income	73	78	(24)	127
Operating income	270	296	51	617
Operating expenses	(69)	(63)	(221)	(353)
Impairment losses on credit exposures	(129)	(58)	4	(183)
Group operating profit/(loss)	72	175	(166)	81
Tax expense	(20)	(49)	49	(20)
Cash earnings after tax	52	126	(117)	61
Non-cash earnings items after tax	(28)	-	(18)	(46)
Profit/(loss) after tax	24	126	(135)	15
Average assets	24,159	8,029	12,304	44,492

3. Segment information (continued)

Operating Segments 12 months ended 30 September 2010 (audited)	**Business £m**	**Retail £m**	**Central and Other Functions £m**	**UK Banking £m**
Net interest income	404	434	124	962
Other operating income	152	162	(53)	261
Operating income	556	596	71	1,223
Operating expenses	(141)	(126)	(445)	(712)
Impairment losses on credit exposures	(269)	(82)	4	(347)
Group operating profit/(loss)	146	388	(370)	164
Tax expense	(41)	(108)	103	(46)
Cash earnings after tax	105	280	(267)	118
Non-cash earnings items after tax	(49)	-	(17)	(66)
Profit/(loss) after tax	56	280	(284)	52
Average assets	23,958	8,091	12,428	44,477

Non-cash earnings items after tax includes fair value and hedge ineffectiveness income, and Efficiency, Quality and Service initiative spend which are excluded from the UK Banking income statement.

Reconciliations between segment and statutory results are as follows:

The following tables reconcile the information in the operating segment tables on the previous page to the Income Statement.

6 months ended 31 March 2011 (unaudited)	**UK Banking £m**	**Non-Cash Earnings Items £m**	**Other Segments and Adjustments £m**	**CB PLC Total £m**
Net interest income	481	-	8	489
Other operating income	134	(59)	6	81
Operating income	615	(59)	14	570
Operating expenses	(363)	-	2	(361)
Impairment losses on credit exposures	(151)	-	1	(150)
Group operating profit/(loss)	101	(59)	17	59
Tax expense	(24)	15	(5)	(14)
Cash earnings after tax	**77**	**(44)**	**12**	**45**
Non-cash earnings items after tax:				
Fair value and hedge ineffectiveness	(44)	44	-	-
Payment protection insurance*	-	-	(85)	(85)
Special financial services compensation scheme levy	-	-	(3)	(3)
Profit/(loss) after tax	**33**	**-**	**(76)**	**(43)**
Average assets	**44,788**	**-**	**(572)**	**44,216**

* Includes further £100m (before tax) PPI redress provision announced 19 May 2011.

3. Segment information (continued)

6 months ended 31 March 2010 (unaudited) As restated	**UK Banking £m**	**Non-Cash Earnings Items £m**	**Other Segments and Adjustments £m**	**CB PLC Total £m**
Net interest income	490	-	(4)	486
Other operating income	127	(54)	1	74
Operating income	617	(54)	(3)	560
Operating expenses	(353)	(6)	1	(358)
Impairment losses on credit exposures	(183)	-	(5)	(188)
Group operating profit/(loss)	81	(60)	(7)	14
Tax expense	(20)	14	1	(5)
Cash earnings after tax	61	(46)	(6)	9
Non-cash earnings items after tax:				
Fair value and hedge ineffectiveness	(46)	46	-	-
Payment protection insurance	-	-	(4)	(4)
Special financial services compensation scheme levy	-	-	(1)	(1)
Profit/(loss) after tax	15	-	(11)	4
Average assets	44,492	-	(718)	43,774

12 months ended 30 September 2010 (audited) As restated	**UK Banking £m**	**Non-Cash Earnings Items £m**	**Other Segments and Adjustments £m**	**CB PLC Total £m**
Net interest income	962	-	(2)	960
Other operating income	261	(74)	6	193
Operating income	1,223	(74)	4	1,153
Operating expenses	(712)	(19)	5	(726)
Impairment losses on credit exposures	(347)	-	(15)	(362)
Group operating profit/(loss)	164	(93)	(6)	65
Tax expense	(46)	27	1	(18)
Cash earnings after tax	118	(66)	(5)	47
Non-cash earnings items after tax:				
Fair value and hedge ineffectiveness	(66)	66	-	-
Payment protection insurance	-	-	(12)	(12)
Profit on sale of land and buildings	-	-	2	2
Special financial services compensation scheme levy	-	-	(1)	(1)
Profit/(loss) after tax	52	-	(16)	36
Average assets	44,477	-	(553)	43,924

Other Segments and Adjustments include deductions for the Wealth Management business and certain mid corporate lending on the NAB Group Wholesale Banking balance sheet, which are not part of CB PLC. These balances are offset against parts of the Wholesale Banking business written on the CB PLC balance sheet which are not included within UK Banking. Also included are reallocations of income statement items for statutory disclosure purposes.

Prior period comparatives have been restated to reallocate PPI redress costs from other operating income to significant items in line with the current period disclosure.

4. Net interest income

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m As restated	12 months to 30 Sept 2010 (audited) £m As restated
Interest income			
Loans and advances to other banks	**8**	11	20
Investments			
- available for sale assets	**16**	12	25
- held to maturity assets	**-**	-	1
Loans and advances to customers	**609**	616	1,220
Due from related entities	**11**	5	15
Other interest income	**1**	1	2
	645	645	1,283
Financial assets at fair value through profit or loss	**57**	53	109
Total interest income	**702**	698	1,392
Interest expense			
Due to other banks	**6**	8	15
Due to customers	**142**	144	300
Bonds and notes	**32**	32	64
Due to related entities	**32**	27	51
Other interest expense	**-**	-	1
	212	211	431
Financial liabilities at fair value through profit or loss	**1**	1	1
Total interest expense	**213**	212	432
Net interest income	**489**	486	960

Prior period interest has been reallocated between loans and advances to customers and financial assets at fair value through profit or loss to better reflect the cash flows from the two elements of the portfolio.

5. Non interest income

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m As restated	12 months to 30 Sept 2010 (audited) £m As restated
Gains less losses on financial instruments at fair value			
Movement in fair value of asset (explanatory note below)	**(221)**	(24)	46
Interest rate derivatives	**175**	(34)	(121)
Foreign exchange derivatives	**10**	10	20
Ineffectiveness arising from fair value hedges (note 15)	**(4)**	3	9
Ineffectiveness arising from cash flow hedges (note 15)	**(7)**	2	(3)
	(47)	(43)	(49)
Other operating income			
Fees and commission	**119**	107	227
Net fair value movement on investment properties	**-**	3	3
Loss on disposal of investment properties	**-**	(1)	(1)
Other income	**9**	8	13
	128	117	242
Total non interest income	**81**	74	193

5. Non interest income (continued)

Certain financial assets are designated at inception as fair value through profit or loss. These assets are predominantly fixed interest rate loans which are individually hedged and are fair valued with the movements in fair value taken through the income statement. The fair value of the loan is derived from the future loan cash flows using appropriate discount rates and includes adjustments for credit risk and credit losses. As interest rates fall, the carrying value of the loan increases. Similarly, as interest rates increase, the carrying value of the loan decreases. To the extent that the fair value of the loan reflects movements in interest rates there will be an offsetting movement in the underlying derivative. Movements in the fair value of loans that relate to changes in the creditworthiness of the loan counterparty and the margin earned on the loan are not reflected in the underlying derivative valuation.

With effect from 1 October 2010, the methodology for the valuation of the loans and advances held at fair value was revised. The effect of this revision at 31 March 2011 is a £40m reduction to the carrying value. If the methodology had not been revised, the pre-tax consolidated income during the current period would have been increased by this amount. It is impractical to estimate the impact of the effect on future periods, principally due to uncertainties over levels of lending, the margins achieved and variability of long-term risk-free interest rates.

Fees and commission income includes £3m (September 2010: £11m and March 2010: £7m) in relation to financial instruments at fair value through profit or loss.

ATM disloyalty fees payable of £7m (September 2010: £22m and March 2010: £8m) were previously disclosed in other income and have now been reallocated to fees and commission.

Prior period comparatives have been restated to reallocate PPI redress costs from other operating income to significant items in line with the current period disclosure.

6. Operating expenses

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Personnel expenses			
Salaries, wages and non cash benefits	**92**	85	177
Related personnel expenses	**8**	8	16
Defined contribution pension expense	**5**	4	9
Defined benefit pension expense	**13**	14	25
Equity-based compensation	**9**	8	17
Other personnel expenses	**4**	4	7
	131	123	251
Depreciation expense			
Depreciation of property, plant and equipment (note 19)	**10**	11	21
Efficiency, quality and service initiatives			
Other personnel expenses	**-**	3	6
Other occupancy expenses	**-**	-	1
Other expenses	**-**	3	12
	-	6	19
Other operating expenses			
Operating lease rental	**20**	22	40
Other occupancy expenses	**20**	26	44
Related entity recharges (note 11)	**137**	125	254
Other operating expenses	**43**	45	97
	220	218	435
Total operating expenses	**361**	358	726

7. Tax expense

a) Analysis of charge in the period

Tax charged in the income statement

The charge for taxation comprises:	**6 months to 31 Mar 2011 (unaudited) £m**	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Current tax			
United Kingdom Corporation Tax at 27% (Sept 2010: 28%)			
- current year	**(8)**	(6)	(5)
- prior year	**(1)**	(3)	3
Other overseas taxation	**6**	4	10
Total current tax	**(3)**	(5)	8
Deferred tax			
Origination and reversal of temporary differences			
- current year	**(14)**	7	10
- prior year	**(1)**	-	(5)
Total deferred income tax	**(15)**	7	5
Income tax (credit)/expense reported in income statement	**(18)**	2	13

Tax relating to items charged or credited to equity

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Current tax			
Available for sale investments	**-**	-	(3)
Release of transitional deferred tax	**(3)**	(3)	(6)
Deferred tax asset			
Actuarial gain/(loss) on defined benefit pension schemes	**45**	(19)	(10)
Employee share compensation	**1**	-	1
Release of transitional deferred tax	**3**	3	6
Deferred tax liability			
Net (loss)/gain on revaluation of cash flow hedges	**(27)**	-	9
Tax charge/(credit) in the statement of comprehensive income	**19**	(19)	(3)

7. Tax expense (continued)

b) Factors affecting tax charge for the period

The tax assessed for the period reflects the standard rate of Corporation Tax in the UK (27%). The factors are explained below:

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
(Loss)/profit on ordinary activities before tax	**(61)**	6	49
(Loss)/profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 27% (September and March 2010: 28%)	**(16)**	2	14
Effects of:			
Expenses not deductible for tax purposes	**1**	1	3
Rate differences	**(2)**	-	(3)
Adjustments to tax charge in respect of previous periods	**(2)**	(3)	(2)
Other	**1**	2	1
Total income tax (credit)/expense for period	**(18)**	2	13

Legislation was introduced in Finance (No. 2) Act 2010, published on 29 July 2010, to reduce the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. On 23 March 2011, the Chancellor announced a further reduction in the main rate of corporation tax from the already announced 27% to 26%. As the new rate was substantially enacted by 31 March 2011, its effect is reflected in the deferred tax assets and liabilities recorded on the balance sheet.

The UK government has also announced its intention to legislate to reduce the rate further by 1% per annum falling to 23% with effect from 1 April 2014. The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 23% is expected to be £11m (equivalent to 3% of the closing gross deferred tax balance).

8. Components of other comprehensive income

Reserves movements	**6 months to 31 Mar 2011 (unaudited) £m**	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Cash flow hedges:			
(Losses)/gains during the year	**(105)**	2	33
Transfer of losses/(gains) to the income statement	**7**	(2)	3
	(98)	-	36
Available for sale:			
Gains/(losses) during the year	**2**	-	(10)
Transfer of gains to the income statement	**(2)**	-	(1)
	-	-	(11)
Defined benefit pensions:			
Gains/(losses) during the year	**142**	(70)	(65)

9. Dividends paid

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Preference dividends paid - 12% per annum payable semi-annually (6p per share)	**6**	6	12

10. Cash and balances with central banks

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Cash assets	**898**	957	846
Balances with central banks	**2,954**	3,131	3,224
	3,852	4,088	4,070

Balances with central banks include mandatory deposits of £28m (September 2010: £30m and March 2010: £28m) which are not available for use in the Group's day to day business. Mandatory deposits include cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

11. Related party transactions

The Bank is a wholly owned controlled entity of National Australia Group Europe Limited. The ultimate parent entity of the Bank is National Australia Bank Limited. During August 2010, the Bank's immediate parent, National Europe Holdings (GB) Limited transferred ownership of Clydesdale Bank PLC to National Europe Holdings Limited, a wholly owned subsidiary of National Australia Group Europe Limited. During October 2010, National Europe Holdings Limited transferred ownership of Clydesdale Bank PLC to National Australia Group Europe Limited. National Europe Holdings (GB) Limited and National Europe Holdings Limited have both been placed into members voluntary liquidation.

During the period there have been transactions between the Bank, its ultimate parent, controlled entities of the ultimate parent, controlled entities of the Bank, and other related parties.

The Bank provides a range of services to related parties, including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance, forward exchange and interest cover. Those transactions are normally subject to commercial terms and conditions.

The Bank and Group receives a range of services from the parent and related parties, including loans and deposits, forward exchange and interest rate cover and various administrative services. Fees may be charged for these services.

Amounts due from related entities

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Loans			
Ultimate parent	**2,985**	3,014	2,810
Other receivables			
Ultimate parent	**9**	20	8
Controlled entities of the ultimate parent	**19**	12	21
	28	32	29
Total amounts due from related entities	**3,013**	3,046	2,839
Interest income on the above amounts was as follows:			
Ultimate parent	**11**	5	15

11. Related party transactions (continued)

Reverse repurchase agreements
Included in amounts due from related entities - ultimate parent is £2,469m (September 2010: £2,234m and March 2010: £2,608m) for securities purchased under agreements to resell.

As part of the reverse repurchase agreements included in "Amounts due from related entities", the Bank has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 31 March 2011 amounts to £2,461m (September 2010: £2,223m and March 2010: £2,631m) for the Bank, of which £Nil (September 2010: £106m and March 2010: £Nil) for the Bank has been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

The Bank is obliged to return equivalent securities on maturity of the transaction. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing activities.

Amounts due to related entities

Group	**31 Mar 2011 (unaudited) £m**	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Deposits			
Ultimate parent	**2,765**	2,709	2,618
Controlled entities of the ultimate parent	**-**	10	-
	2,765	2,719	2,618
Subordinated liabilities			
Ultimate parent	**550**	300	300
Controlled entities of the ultimate parent	**526**	426	426
	1,076	726	726
Other payables			
Ultimate parent	**16**	11	10
Controlled entities of the ultimate parent	**36**	30	32
	52	41	42
Total amounts due to related entities	**3,893**	3,486	3,386
Interest expense on the above amounts was as follows:			
Ultimate parent	**27**	24	45
Controlled entities of the ultimate parent	**5**	3	6
Total interest expense on amounts due to related entities	**32**	27	51

Securitisation
The Bank has securitised part of its residential mortgage portfolio and the cash raised via the issue of Residential Mortgaged Backed Securities (RMBS) through SPEs forms part of the Bank's medium term funding. The value of the RMBS issued as at 31 March 2011 was £1,704m (September 2010: £1,827m and March 2010: £1,977).

Other transactions with related entities

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Non interest income received			
Controlled entities of the ultimate parent	**5**	4	10
Administrative expenses			
Ultimate parent	**4**	2	5
Controlled entities of the ultimate parent	**133**	123	249
	137	125	254

12. Due from other banks

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Transaction balances with other banks	**16**	12	11

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Senior investment grade	**15**	12	10
Investment grade	**1**	-	1
	16	12	11

13. Investments

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Available for sale - listed	**1,791**	1,635	2,256
Available for sale - unlisted	**6**	10	6
	1,797	1,645	2,262

Included in the available for sale ("AFS") listed securities at 31 March 2011 are £0.9bn (September 2010: £1.2bn and March 2010: £1.4bn) investments in other banks' debt securities, which are subject to a UK Government backed guarantee plus £0.8bn in UK Government Gilts and £0.17bn in other banks' debt securities.

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Held to maturity - listed	**-**	25	-

The Group held to maturity investments matured in the year to 30 September 2010.

14. Other financial assets and liabilities at fair value

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Other financial assets at fair value through profit or loss			
Loans and advances	**4,715**	5,070	5,027
Other derivatives			
Other derivative financial assets (note 15)	**211**	316	297
Derivative financial assets - related entities (note 15)	**98**	134	72
	309	450	369
Other financial assets at fair value	**5,024**	5,520	5,396

14. Other financial assets and liabilities at fair value (continued)

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Other financial liabilities at fair value through profit or loss			
Due to customers - term deposits	**120**	59	66
Other derivatives			
Other derivative financial liabilities (note 15)	**38**	36	58
Derivative financial liabilities - related entities (note 15)	**503**	610	772
	541	646	830
Other financial liabilities at fair value	**661**	705	896

Loans and advances to customers

Included in other financial assets at fair value is a portfolio of loans which have embedded derivative characteristics. These loans are hedged with interest rate derivative contracts with matching cash flows. The hedges do not achieve the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £4,715m (September 2010: £5,027m and March 2010: £5,070m). The cumulative movement in fair value of the loans attributable to changes in credit risk amounts to £134m (September 2010: £131m and March 2010: £103m) and the change for the current period is £3m (September 2010: £21m and March 2010: £7m).

The expected changes in fair value of the designated loans attributable to credit risk have been calculated using an established statistical based calculation used to estimate expected losses attributable to adverse movements in credit risk.

With effect from 1 October 2010, the methodology for the valuation of the loans and advances held at fair value was revised. The effect of this revision at 31 March 2011 is a £40m reduction to the carrying value. If the methodology had not been revised, the pre-tax consolidated income during the current period would have been increased by this amount. It is impractical to estimate the impact of the effect on future periods, principally due to uncertainties over levels of lending, the margins achieved and variability of long-term risk-free interest rates.

Due to customers - Term deposits

Included in other financial liabilities at fair value are fixed rate defeasance deposits which have been hedged with interest rate derivative contracts with matching cash flows.

The change in fair value attributable to changes in the Bank credit risk is £Nil (September 2010: £Nil and March 2010: £Nil). The Bank is contractually obligated to pay £9m (September 2010: £7m and March 2010: £6m) less than the carrying amount at maturity to the deposit holder.

15. Derivative financial instruments

Use of derivatives

The Group uses derivatives to hedge its balance sheet. The Group's principal objective in holding or issuing derivatives is asset and liability management.

The operations of the Group are subject to the risk of interest rate fluctuations, to the extent that there is a difference between the amount of the interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. One of the objectives of asset and liability management is to protect levels of net interest income, while maintaining acceptable levels of liquidity to meet the Group obligations as they fall due.

To achieve these objectives, the Group uses a combination of derivative financial instruments, including foreign exchange, forward rate agreements, swaps, options, caps, floors, and other contingent contracts. The hedges transacted within the Group are entered into with NAB. Provided IAS 39 cash flow hedging criteria are met, the fair value changes on the related hedging instruments that are deemed effective are deferred in the cash flow reserve and transferred to the income statement at the time the hedged item affects income. Hedge effectiveness is monitored, and any hedge ineffectiveness is recognised in the income statement immediately.

15. Derivative financial instruments (continued)

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

The Group does not have a trading book. However, certain derivatives do not meet the IAS39 hedging criteria and are accounted for as trading derivatives.

Derivatives
A derivative financial instrument is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index. Derivatives are usually separated into three generic classes: forward and futures contracts, options, and swaps, although individual products may combine the features of more than one class. The principal features of each of these classes, for derivatives that the Group enters into, are summarised below.

Forward and futures contracts
Forward and futures contracts are contracts for delayed delivery of a specific underlying asset in which the seller agrees to settle at a specified future date at a specified price or yield. A forward rate agreement is a confirmed agreement between two parties to exchange an interest rate differential on a notional principal amount at a given future date.

Options
Options are contracts that allow the holder of the option the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period. Interest rate caps and floors are option contracts and are included as such in the disclosures below. They require the seller to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to the notional principal amount.

Swaps
Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying notional principal amount. A vanilla cross currency swap takes the form of an agreement to exchange one currency for another and to re-exchange the currencies at the maturity of the swap, using the same exchange rate, with the exchange of interest payments throughout the swap period. A balance guarantee cross currency swap protects the Group if securitisation amortisation payment frequencies change.

Other financial instruments
In addition to derivatives, various financial instruments, for example loans and advances, deposits, debt securities, trade debtors and creditors and accruals, arise directly from the Group's operations.

Risk management

Derivative contracts are disclosed as follows:

	Assets 31 Mar 2011 (unaudited)	Assets 31 Mar 2010 (unaudited)	Assets 30 Sept 2010 (audited)
Fair value	**£m**	£m	£m
Derivative financial assets	**556**	851	719
Other derivative financial assets (note 14)	**211**	316	297
Derivative financial assets - related entities (note 14)	**98**	134	72
	865	1,301	1,088

15. Derivative financial instruments (continued)

Risk management (continued)

Fair value	**Liabilities 31 Mar 2011 (unaudited) £m**	Liabilities 31 Mar 2010 (unaudited) £m	Liabilities 30 Sept 2010 (audited) £m
Derivative financial liabilities	**55**	106	117
Other derivative financial liabilities (note 14)	**38**	36	58
Derivative financial liabilities - related entities (note 14)	**503**	610	772
	596	752	947

Certain derivative financial assets and liabilities have been booked in consolidated special purpose vehicles.

Derivative financial assets and liabilities held at fair value through profit or loss (FVTPL) include the hedges for the Group Securitisation programme, Medium Term Note ("MTNs") programmes and cash flow hedges.

The carrying value of the currency liabilities issued through securitisation and MTN programmes fluctuates as a result of foreign exchange movements. There is a corresponding movement in the value of the hedging derivative.

The carrying value of the cash flow hedge derivatives increases as LIBOR yield curves used to discount the future cashflows reduce.

Derivative financial assets and liabilities that cannot be held in a hedge relationship are deemed to be held for trading.

Cash flow hedges

Included in the derivative contracts are the following cash flow hedge derivatives:

	Contract	**Fair Value**		Contract	Fair Value	
	Amount 31 Mar 2011 (unaudited) £m	**Assets 31 Mar 2011 (unaudited) £m**	**Liabilities 31 Mar 2011 (unaudited) £m**	Amount 31 Mar 2010 (unaudited) £m	Assets 31 Mar 2010 (unaudited) £m	Liabilities 31 Mar 2010 (unaudited) £m
Interest rate-related contracts	**10,012**	**131**	**53**	14,225	251	99

	Contract	Fair Value	
	Amount 30 Sept 2010 (audited) £m	Assets 30 Sept 2010 (audited) £m	Liabilities 30 Sept 2010 (audited) £m
Interest rate-related contracts	12,362	261	78

15. Derivative financial instruments (continued)

Cash flow hedges (continued)

The Group macro hedges its interest rate exposure using cash flow hedges. These are vanilla fixed rate interest rate swaps for which the Group has the following commitments in the time bands noted:

Nominal values per time period	**31 Mar 2011 (unaudited) £m**	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
0 to 6 months	**2,882**	3,963	3,995
6 to 12 months	**2,795**	3,895	2,032
1 to 2 years	**1,865**	4,027	4,235
2 to 5 years	**2,410**	2,340	2,100
greater than 5 years	**60**	-	-
	10,012	14,225	12,362

The Group has hedged the following forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods, excluding any hedge adjustments that may be applied:

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Forecast receivable cash flows			
- within one year	**13**	17	16
- between one and two years	**3**	24	7
- between two and three years	**-**	6	-
	16	47	23

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Forecast payable cash flows			
- within one year	**179**	214	216
- between one and two years	**101**	149	123
- between two and three years	**62**	81	62
- between three and four years	**40**	39	40
- between four and five years	**12**	19	19
- greater than five years	**2**	-	-
	396	502	460

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
(Loss)/gain from cash flow hedges recognised in the income statement due to hedge ineffectiveness (note 5)	**(7)**	2	(3)

15. Derivative financial instruments (continued)

Fair value hedges

In addition the Group has the following fair value hedges that are designated as sterling interest rate related swaps:

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Nominal values per time period			
0 to 6 months	**-**	-	250
6 to 12 months	**750**	250	-
1 to 2 years	**900**	1,650	1,650
> 5 years	**758**	-	758
	2,408	1,900	2,658

Finally the Group has the following fair value hedges that are designated as cross currency related swaps:

		31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Nominal values per time period				
0 to 6 months	Exchange rate £/USD = 1.6106	**-**	136	-
1 to 2 years	Exchange rate £/USD = 1.6106	**434**	-	484
1 to 2 years	Exchange rate £/Euro = 1.1382	**905**	-	964
2 to 5 years	Exchange rate £/USD = 1.6106	-	538	-
2 to 5 years	Exchange rate £/Euro = 1.1382	**-**	1,085	-
		1,339	1,759	1,448

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Gains or (losses) arising from fair value hedges (note 5)			
Hedging instrument	**(3)**	(94)	(290)
Hedged item attributable to the hedged risk	**(1)**	97	299
	(4)	3	9

16. Loans and advances to customers

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Overdrafts	**4,218**	4,175	4,163
Credit cards	**502**	507	526
Lease finance	**973**	1,095	1,001
Housing loans	**13,132**	12,494	12,781
Other term lending - business	**8,190**	8,258	8,083
Other term lending - retail	**954**	1,137	1,069
Other lending	**19**	13	20
Gross loans and advances to customers	**27,988**	27,679	27,643
Unearned income	**(217)**	(266)	(251)
Deferred and unamortised fee income	**(64)**	(45)	(49)
Impairment provisions on credit exposures (note 17)	**(375)**	(367)	(362)
	27,332	27,001	26,981

16. Loans and advances to customers (continued)

The Group has transferred £1,872m (September 2010: £2,066m and March 2010: £2,256m) of housing loans through securitisation arrangements that do not qualify for derecognition from the balance sheet (note 18). The housing loans do not qualify for derecognition because the Group remains exposed to the risks and rewards of ownership on an ongoing basis. The Group continues to be exposed primarily to the liquidity risk, interest rate risk and credit risk of the housing loans. The Group is also exposed to the residual rewards of the housing loans as a result of its ability to benefit from the future performance of the housing loans through the receipt of deferred consideration.

The carrying amount of the associated liability before transactional costs is £1,562m (September 2010: £1,693m and March 2010: £1,934m).

Included within loans and advances to customers are £2,061m (September 2010: £2,230m and March 2010: £2,420m) of housing loans assigned to a bankruptcy remote special purpose entity, Clydesdale Covered Bonds LLP. These loans provide security for issues of covered bonds made by Clydesdale Bank PLC. These transactions do not qualify for derecognition from the balance sheet. To date Clydesdale Bank PLC has issued £2,450m of covered bonds, under its covered bond programme, which are held by Clydesdale Bank PLC at 31 March 2011. As the covered bonds issued are held by Clydesdale Bank PLC no accounting entries are required in these Financial Statements.

Industry concentration of assets
The following table shows the levels of industry concentration of loans and advances:

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Government and public authorities	**27**	27	24
Agriculture, forestry, fishing and mining	**1,097**	1,128	1,158
Financial, investment and insurance	**821**	313	202
Real estate - construction	**3,045**	660	630
Manufacturing	**815**	665	817
Instalment loans to individuals and other personal lending (including credit cards)	**2,501**	2,665	2,575
Real estate - mortgage	**13,132**	12,494	12,781
Asset and lease financing	**973**	1,095	1,001
Other commercial and industrial	**5,577**	8,632	8,455
	27,988	27,679	27,643

Clydesdale Bank PLC has implemented the Standard Industrial Classification of Economic Activities (SIC) 2007 codes as defined by the Office for National Statistics. This was a requirement for all UK financial institutions with effect from January 2011 and has resulted in material movements between some of the industry categories shown above. The most notable change is that property developers previously classified within 'Other commercial and industrial' are now classified within 'Real estate - construction'.

Maximum exposure to credit risk
The amounts disclosed are the maximum exposure to credit risk of “Loans and advances”, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount.

16. Loans and advances to customers (continued)

Maximum exposure to credit risk (continued)

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

Description of collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or interlocking guarantees;
- specific charges over defined assets of the counterparty; and
- loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

Distribution of loans and advances by credit quality

	31 Mar 2011 (unaudited)	31 Mar 2010 (unaudited)	30 Sept 2010 (audited)
Business lending	**£m**	£m	£m
Gross loans and advances:			
Neither past due nor impaired	**12,010**	12,338	12,032
Past due but not impaired	**591**	585	526
Impaired	**800**	618	709
	13,401	13,541	13,267

	31 Mar 2011 (unaudited)	31 Mar 2010 (unaudited)	30 Sept 2010 (audited)
Retail lending	**£m**	£m	£m
Gross loans and advances:			
Neither past due nor impaired	**14,167**	13,678	13,936
Past due but not impaired	**370**	430	395
Impaired	**50**	30	45
	14,587	14,138	14,376

Restructured/renegotiated loans

There have been eight loans of £60m (September 2010: six loans totalling £20m and March 2010: one loan totalling £4m) that have had their terms renegotiated and continue to be disclosed within the impaired assets category. There are no other loans (September 2010: £nil and March 2010: £nil) that would otherwise have been past due whose terms have been renegotiated.

Credit quality of loans and advances

The Group has an internally developed credit rating system that uses data drawn from a number of sources to assess the potential risk in lending to the Bank's customers. The Group has a single common masterscale across all non-retail counterparties for Probability of Default. This probability of default masterscale can be broadly mapped to external rating agencies and has performing (pre-default) and non performing (post-default) grades. Impaired assets consist of non-retail loans (excludes credit card loans and portfolio managed facilities) which have been individually assessed and there is sufficient doubt about the ultimate collectability of principal and interest with security insufficient to cover principal and interest. Unsecured portfolio managed facilities are classified as impaired when they become 180 days past due (if not written off).

Collateral and other credit enhancements obtained

Generally, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for its own business use.

16. Loans and advances to customers (continued)

Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's standard credit rating system. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

The table below presents the analysis of business lending credit quality of loans and advances that are neither past due nor impaired:

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Business lending			
Senior investment grade	**1,668**	1,174	1,902
Investment grade	**2,253**	1,881	1,862
Sub investment grade	**8,089**	9,283	8,268
	12,010	12,338	12,032

For the business lending analysis, investment grades are determined by the Customer Rating System (eCRS) as defined under the Credit Risk Management Policy:

- senior investment grade is eCRS Ratings 1 to 5;
- investment grade is eCRS Ratings 6 to 11; and
- sub investment grade is eCRS Ratings 12 to 23.

These ratings were applied based on the Group determined eCRS distribution curve utilising UK sourced data. The results of this are then applied to the loans and advances to determine the allocation between investment grades.

There are no eCRS ratings available for retail loans and advances as these loans and advances are not risk rated on this basis, rather an overall portfolio profile basis is applied.

Loans and advances which were past due but not impaired

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Business lending			
1 to 29 days past due	**411**	383	370
30 to 59 days past due	**36**	41	15
60 to 89 days past due	**7**	5	4
Past due over 90 days	**137**	156	137
	591	585	526

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Retail lending			
1 to 29 days past due	**114**	126	120
30 to 59 days past due	**106**	138	91
60 to 89 days past due	**25**	30	56
Past due over 90 days	**125**	136	128
	370	430	395

Loans and advances that are past due but are not impaired are classified as such where the net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility.

17. Impairment provisions on credit exposures

6 months to 31 March 2011 (unaudited)	**Business lending £m**	**Retail lending £m**	**Total £m**
Opening balance	282	80	362
Charge for the period	108	42	150
Amounts written off	(106)	(48)	(154)
Recoveries of amounts written off in previous years	10	7	17
Closing balance	**294**	**81**	**375**
Specific	87	11	98
Collective	207	70	277
	294	**81**	**375**

6 months to 31 March 2010 (unaudited)	**Business lending £m**	**Retail lending £m**	**Total £m**
Opening balance	244	92	336
Charge for the period	139	49	188
Amounts written off	(103)	(68)	(171)
Recoveries of amounts written off in previous years	-	14	14
Closing balance	280	87	367
Specific	69	8	77
Collective	211	79	290
	280	87	367

12 months to 30 September 2010 (audited)	**Business lending £m**	**Retail lending £m**	**Total £m**
Opening balance	244	92	336
Charge for the year	294	68	362
Amounts written off	(262)	(121)	(383)
Recoveries of amounts written off in previous years	6	41	47
Closing balance	282	80	362
Specific	64	10	74
Collective	218	70	288
	282	80	362

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Amounts included in			
Loans and advances to customers (note 16)	**375**	367	362
Non accrual loans			
Loans and advances to customers	**850**	648	754
Provisions	**(98)**	(77)	(74)
Total	**752**	571	680

18. Securitisation

Securitised advances are subject to non-recourse finance arrangements. These loans have been transferred at principal value to Lanark Trustees Limited, a special purpose entity (SPE), from Clydesdale Bank PLC, and have been funded through the issue of amortising mortgage backed securities to wholesale market investors. The transfer did not meet the derecognition tests in IAS39. The Group's balance sheet include the results, assets and liabilities of the Lanark group of companies (securitisation SPEs), on a line by line basis.

The balance of assets and liabilities in relation to securitisation notes in issue at 31 March 2011, 31 March 2010 and 30 September 2010 within the Group's balance sheet are as follows:

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Assets			
Cross currency swaps on bonds and notes	**224**	410	251
Loans and advances to customers (note 16)	**1,872**	2,256	2,066
Accrued interest receivable	**13**	14	13
	2,109	2,680	2,330
Liabilities			
Bonds and notes (note 26)	**1,561**	1,932	1,693
Accrued interest payable	**7**	7	10
	1,568	1,939	1,703

At 31 March 2011 the SPEs had cash deposits with Clydesdale Bank PLC amounting to £67m (September 2010: £70m and March 2010: £17m). This balance is restricted in use to the repayment of the debt securities issued by the SPEs and other legal obligations.

Lanark Master Issuer redeemed its subordinated notes to the value of £232.2m on their call date of 22 February 2010 and subsequently issued a series of unrated subordinated ‘Z’ notes for £159.8m. Clydesdale Bank PLC has subscribed for these notes. The class Z notes give the required subordination to the remaining outstanding senior notes. Clydesdale Bank PLC has therefore paid £72.4m cash into the structure to meet the note payment obligations on the junior notes in return for an increased share of the trust property. The ratings of the remaining senior notes have been affirmed by S&P, Moody's and Fitch.

19. Property, plant and equipment

Movements on property, plant and equipment

	Freehold land and buildings £m	Leases of 50 years and over unexpired £m	Leases of under 50 years unexpired £m	Motor vehicles, fixtures and equipment £m	Total £m
Cost or valuation					
At 1 October 2010	36	3	141	139	319
Additions	-	-	3	3	6
Disposals	-	-	(7)	(15)	(22)
At 31 March 2011	**36**	**3**	**137**	**127**	**303**
Accumulated depreciation					
At 1 October 2010	1	1	72	88	162
Charge for the period	-	-	6	4	10
Disposals	-	-	(6)	(14)	(20)
At 31 March 2011	**1**	**1**	**72**	**78**	**152**
Net book value					
At 31 March 2011 (unaudited)	**35**	**2**	**65**	**49**	**151**
At 31 March 2010 (unaudited)	41	1	63	54	159
At 30 September 2010 (audited)	35	2	69	51	157

20. Investment properties

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
At 1 October	**77**	33	33
Additions	**11**	3	48
Disposals	**(2)**	(2)	(7)
Increment on revaluation	**-**	3	3
	86	37	77

During the period 82% (September 2010: 90% and March 2010: 80%) of the investment properties generated rental income of £1.21m (September 2010: £0.97m and March 2010: £0.39m) and incurred operating expenses of £1.02m (September 2010: £0.80m and March 2010: £0.18m). The operating expenses of the investment properties that did not generate rental income were £0.14m (September 2010: £0.09m and March 2010: £0.05m).

Investment properties are stated at fair value, which has been determined based on valuations performed by the Directors of the property subsidiaries of St Vincent Investments Limited ("SVIL"). The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

21. Property inventory

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Cost			
At 1 October	**31**	25	25
Additions	**1**	6	9
Disposals	**(3)**	(2)	(3)
Properties completed and under construction	**29**	29	31

Included within property inventory is property under construction of £16.9m (September 2010: £25.1m and March 2010: £22.8m). The remaining properties are complete and available for sale.

22. Deferred tax

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Deferred tax asset			
Opening balance	**144**	147	147
Tax credit/(expense) recognised in income statement	**15**	(6)	(10)
Deferred taxation recognised in equity	**(49)**	16	3
Transfers from deferred tax liability	**-**	-	4
Closing balance	**110**	157	144

The deferred tax asset is attributable to the following items:

Defined benefit pension liability	**34**	99	90
Impairment reserve on credit exposures	**27**	34	30
Employee share based payments	**9**	11	9
Other	**40**	13	15
	110	157	144

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Deferred tax liability			
Opening balance	**43**	50	50
Tax credit recognised in income statement	**-**	-	(5)
Deferred taxation recognised in equity	**(27)**	-	9
Transfers to deferred tax asset	**-**	-	4
Other	**-**	(7)	(15)
Closing balance	**16**	43	43

The deferred tax liability is attributable to the following items:

Accelerated capital allowances	**(8)**	1	(7)
Net gain on revaluation of properties	**2**	3	2
Cash flow hedge reserve	**22**	39	48
	16	43	43

23. Due to other banks

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Transaction balances with other banks	**3**	7	6
Securities sold under agreements to repurchase	**524**	551	631
Deposits with other banks	**870**	839	736
	1,397	1,397	1,373

24. Due to customers

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Non interest bearing demand deposits	**1,339**	1,080	1,205
Interest bearing demand deposits	**16,291**	16,045	16,667
Term deposits	**6,517**	7,236	7,078
Other wholesale deposits	**3,661**	3,900	3,484
	27,808	28,261	28,434

25. Provisions

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m	12 months to 30 Sept 2010 (audited) £m
Refund of current account fees and associated costs			
Opening balance	**1**	4	4
Provisions utilised	**-**	(3)	(3)
Closing balance	**1**	1	1
Payment Protection Insurance			
Opening balance	**15**	4	4
Charge to income statement	**116**	6	17
Provisions utilised	**(11)**	(3)	(6)
Closing balance	**120**	7	15
Other provisions			
Opening balance	**11**	6	6
Charge to income statement	**1**	3	7
Provisions utilised	**(2)**	(1)	(2)
Closing balance	**10**	8	11
Total provisions	**131**	16	27

The payment protection insurance provision was included within other provisions at 31 March 2010.

Refund of current account fees and associated costs

The Office of Fair Trading (OFT) continues to liaise with the industry on the issue of exception charges.

The unarranged overdraft charges legal test case concluded on 25 November 2009. The UK Supreme Court ruled that the level of the charges could not be assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The waiver issued by the FSA to keep claims for refunds on hold accordingly lapsed and all claimants have been informed that the bank has no liability under the Regulations. The Financial Ombudsman Service has rejected the claims lodged unless they involve financial hardship or raise other issues. Most cases pending in the County Courts have now been dismissed, often by the Courts themselves, as the Supreme Court ruling means that there is no legal basis for the claim.

The High Court had already ruled that none of the banks' contracts contain penalties at common law and, accordingly, claims based on this allegation also fail.

As at 31 March 2011, Clydesdale Bank PLC was carrying a provision of £0.2m to cover outstanding claims and Ombudsman fees. In addition, a £0.25m provision is held to cover legal costs in relation to outstanding claims.

Payment Protection Insurance

As at the 31 March, Clydesdale Bank PLC held a provision of £120m to cover costs in relation to outstanding and potential future customer claims for refunds of premiums associated with the alleged mis-selling of Payment Protection Insurance policies. The provision is based on known pipeline cases and includes an estimate for the cost of claims that may be received in the future.

The quantum of the provision required is dependent upon a number of factors. These include the nature and volume of claims and the circumstances of each complaint. Accordingly, there remains significant uncertainty as to the ultimate costs that will be incurred and the Financial Statements disclose a contingent liability with regard to this matter.

Other
This category includes:
- provision for endowment mis-selling;
- provision for costs arising in respect of a number of legal actions and claims arising in the ordinary course of the Bank's business; and
- provision for future employer related taxes in relation to share based remuneration.

26. Bonds and notes

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Medium term notes	**2,264**	2,270	2,250
Subordinated medium term notes	**200**	450	450
Residential mortgage backed securities (note 18)	**1,561**	1,932	1,693
Total bonds, notes and subordinated debt	**4,025**	4,652	4,393
Fair value hedge adjustments	**6**	39	16
	4,031	4,691	4,409

£250m of externally placed subordinated debt was called on 17 February 2011. This followed the issue of £250m subordinated debt to National Australia Bank on 25 January 2011 (note 11).

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m As restated	30 Sept 2010 (audited) £m As restated
Total bonds and notes were recorded as:			
At amortised cost	**1,438**	1,438	1,438
Designated as fair value hedges	**2,593**	3,253	2,971
	4,031	4,691	4,409

The comparative balances for the allocation of bonds and notes between amortised cost and designated as fair value hedges have been restated. Issue costs for the residential mortgage backed securities have been reallocated from amortised cost to designated as fair value hedges.

27. Called up share capital

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Allotted, called up and fully paid			
Ordinary shares of £1 each - equity			
At 1 October	**842**	532	532
Issued during the period	**-**	160	310
At 31 March and 30 September	**842**	692	842
Preference Shares			
Preference shares of £1 each - equity			
At 1 October	**100**	100	100
Issued during the period	**200**	-	-
At 31 March and 30 September	**300**	100	100
Share capital	**1,142**	792	942

On 8 December 2009, 160,000,000 ordinary shares of £1 each were issued at par, resulting in an increase of £160,000,000 in the allotted, called up and fully paid share capital. On 22 September 2010, 150,000,000 ordinary shares of £1 each were also issued at par resulting in a total increase of £310,000,000 in the allotted, called up and fully paid share capital during the year to 30 September 2010.

On 15 December 2010, 200,000,000 preference shares of £1 each were issued at par, resulting in an increase of £200,000,000 in the preference share capital.

The preference shares entitle the holder to a discretionary fixed non-cumulative dividend of 12% per annum, payable semi-annually in arrears commencing on 17 June 2009, until the first redemption date. The dividends payable on the preference shares are at the Bank's discretion based on a number of factors. The preference shares are redeemable, in whole, only at the option of Clydesdale Bank PLC on the day following the 5th anniversary of the date of issue. No such redemption may be made without the consent of the FSA.

28. Reserves

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Share premium account	**243**	243	243
Merger reserve	**338**	338	338
Share option reserve	**9**	10	1
Asset revaluation reserve	**2**	2	2
Available for sale investments reserve	**6**	14	6
Cash flow hedge reserve	**59**	103	130
Retained earnings	**933**	863	885
	1,590	1,573	1,605

Merger reserve

The merger reserve arose as a result of the transfer of the entire business and undertakings of Yorkshire Bank PLC to Clydesdale Bank PLC on 1 December 2004. As no consideration was paid in relation to the transfer the only impact arising was the crystallisation of the Yorkshire Bank PLC Share Capital and Share Premium into a Merger Reserve in the combined entity.

Share option reserve

The Bank's share option reserve represents the outstanding fair value amount in respect of share based payment expense recharged by its ultimate parent that has been charged through the income statement and adjusted for deferred tax.

Asset revaluation reserve

The asset revaluation reserve includes the gross revaluation increments and decrements arising from the revaluation of land and buildings.

Available for sale investments reserve

The available for sale investments reserve records the gains and losses arising from changes in the fair value of available for sale investments.

Cash flow hedge reserve

The cash flow hedge reserve records fair value revaluations of derivatives designated as cash flow hedging instruments.

29. Memorandum items

	Contract amount 31 Mar 2011 (unaudited) £m	Contract amount 31 Mar 2010 (unaudited) £m	Contract amount 30 Sept 2010 (audited) £m
Contingent liabilities			
Group			
Guarantees and assets pledged as collateral security			
- guarantees and irrevocable letters of credit	**303**	293	258
- At call	**1**	1	2
- Due in less than three months	**45**	52	43
- Due 3 months through to 1 year	**57**	38	41
- Due 1 year through to 3 years	**58**	26	29
- Due 3 years through to 5 years	**6**	6	6
- Due after 5 years	**123**	138	125
- No specified maturity	**13**	32	12
	303	293	258
Commitments			
Group			
Sale and option to repurchase transactions	**812**	750	812
- Due 3 months through to 1 year	**500**	250	-
- Due 1 year through to 3 years	**-**	500	500
- Due 3 years through to 5 years	**312**	-	312
	812	750	812
Other commitments			
- undrawn formal standby facilities, credit lines and other commitments to lend at call	**11,140**	8,578	10,788

The September 2010 and subsequent other commitments balances include balances from a limits capture system that had not been included in the March 2010 comparative balance.

The tables above give the contract amounts of off balance sheet transactions for the Group. The contract amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk.

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

30. Other contingent liabilities

Financial Services Compensation Scheme
The UK Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be repaid from the realisation of the assets of the institutions. In the interim the FSCS has estimated levies due to 31 March 2012 from the banking industry to support interest payments on the borrowings, and an accrued expense of £9 million is presently held for the NAB Group's calculated liability for this period. If the assets of the failed institutions are insufficient to repay the Government loan additional levies will become payable in future periods.

Payment Protection Insurance
The issues in respect of the Payment Protection Insurance claims matter are well understood and have received significant exposure in the media. Following publication on 20 April 2011 of the High Court's judgement regarding Payment Protection Insurance complaints the Bank has made provision for current and future claims. The Financial Statements include an amount of £120m to meet costs associated with these claims.

There are a number of factors which will determine the eventual level of future claims that the Bank is unable to predict with any degree of certainty. The provision reflects an assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of uncertain factors, including how many PPI claims will be made against Clydesdale Bank PLC, for what value, and the prospects of mis-selling being established in relation to those claims. The final amount required to settle the potential liability is therefore uncertain. The Bank continues to keep the matter under review.

Other
The Bank is named in and is defending a number of legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group or the Bank is expected to arise from the ultimate resolution of these legal actions.

31. Employees

The average number of full time equivalent employees of the Group during the year was made up as follows:

	31 Mar 2011 (unaudited) Number	31 Mar 2010 (unaudited) Number As restated	30 Sept 2010 (audited) Number As restated
Managers	**1,678**	1,501	1,529
Clerical staff	**3,951**	4,048	4,008
	5,629	5,549	5,537

Clerical staff numbers have been restated as at 31 March 2010 and 30 September 2010 to include contractors.

All staff are contracted employees of National Australia Group Europe Limited ("NAGE") (the intermediate parent company of the Bank). The numbers above disclose the staff remunerated directly by the Group but exclude employees working within other NAGE subsidiaries who provide support services to the Group. The average number of staff employed in the UK Banking operating division of National Australia Bank Limited (the ultimate parent) in the six months to 31 March 2011 was 8,750 (September 2010: 8,608 and March 2010: 8,544). The comparative employee numbers at 31 March 2010 and 30 September 2010 have been restated to include supply staff and technology contractors.

32. Retirement benefit obligations

The Group operated two defined benefit schemes until 30th September 2009, when all the assets and liabilities of the Yorkshire Bank Pension Fund were transferred to the Clydesdale Bank Pension Scheme and the remaining scheme was renamed the Yorkshire and Clydesdale Bank Pensions Scheme. This remaining Scheme is a fully sectionalised arrangement where the discrete assets and liabilities of the two sections are independently calculated in accordance with the previously existing scheme structures.

The net defined benefits pension scheme obligation at 31 March 2011 totalled £112m (March 2010: £354m; September 2010: £312m). The deficit position has improved significantly due to increases in real corporate bond yields combined with positive asset returns and additional contributions.

Defined benefit schemes

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Defined benefit assets	**2,155**	1,961	2,011
Defined benefit obligation	**(2,267)**	(2,315)	(2,323)
Net defined benefits pension scheme obligation	**(112)**	(354)	(312)
Post-retirement medical benefits liability	**(5)**	(6)	(5)
Net retirement benefits obligation	**(117)**	(360)	(317)

33. Notes to the statement of cash flows

	6 months to 31 Mar 2011 (unaudited) £m	6 months to 31 Mar 2010 (unaudited) £m As restated	12 months to 30 Sept 2010 (audited) £m
Non cash items included in profit before tax			
Interest receivable	**(702)**	(698)	(1,392)
Interest payable	**213**	212	432
Depreciation (note 6)	**10**	11	21
Profit on sale of land and buildings	**-**	-	(2)
Gain on revaluation of investment properties	**-**	(3)	(3)
Transfer from available for sale reserve	**(1)**	-	(1)
Transfer from cash flow hedge reserve	**-**	2	(3)
Derivative financial instruments fair value movements	**175**	(34)	(121)
Impairment losses on credit exposures (note 17)	**150**	188	362
Equity-based compensation expense	**9**	8	17
	(146)	(314)	(690)
Changes in operating assets			
Net (increase)/decrease in:			
Balances with supervisory central banks	**1**	(1)	(3)
Due from other banks	**(5)**	328	329
Derivative financial instruments	**(12)**	125	344
Financial assets at fair value through profit or loss	**274**	461	626
Loans and advances to customers	**(501)**	(42)	(196)
Due from customers on acceptances	**1**	(4)	(6)
Other assets	**8**	26	25
	(234)	893	1,119
Changes in operating liabilities			
Net increase/(decrease) in:			
Due to other banks	**(131)**	(597)	(731)
Derivative financial instruments	**(62)**	(7)	4
Financial liabilities at fair value through profit or loss	**(235)**	108	299
Due to customers	**(626)**	1,605	1,778
Liabilities on acceptances	**(1)**	4	6
Provisions	**104**	2	13
Defined benefit pension obligations	**(57)**	(30)	(68)
Other liabilities	**-**	150	79
	(1,008)	1,235	1,380

Comparative balances, in respect of 31 March 2010, including derivative financial instruments and defined benefit pension obligations have been restated to provide enhanced disclosure.

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months maturity from the date of acquisition.

	31 Mar 2011 (unaudited) £m	31 Mar 2010 (unaudited) £m	30 Sept 2010 (audited) £m
Cash assets (excluding mandatory balances with central banks - note 10)	**3,824**	4,059	4,040
Other assets	**115**	136	125
Due to other banks	**(343)**	(79)	(189)
Due to related entities	**(26)**	(25)	(8)
Other liabilities	**(74)**	(52)	(77)
	3,496	4,039	3,891

34. Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Group's balance sheet according to when the assets and liabilities are expected to be recovered or settled. Many of the longer-term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Accordingly, this information is not relied upon by the Group in its management of interest rate risk (refer to note 35 for information on interest rate sensitivity).

31 March 2011 (unaudited)	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash and balances with central banks	2,954	-	-	-	-	898	**3,852**
Due from related entities	544	-	2,469	-	-	-	**3,013**
Due from other banks	-	16	-	-	-	-	**16**
Investments							
- Available for sale	-	-	-	1,797	-	-	**1,797**
Other financial assets at fair value	9	113	428	2,115	2,359	-	**5,024**
Derivative financial instrument	-	2	44	497	1	12	**556**
Loans and advances to customers	5,273	2,060	948	4,537	14,012	502	**27,332**
Due from customers on acceptances	-	7	-	-	-	-	**7**
All other assets	115	-	-	-	-	1,250	**1,365**
Total assets	**8,895**	**2,198**	**3,889**	**8,946**	**16,372**	**2,662**	**42,962**
Liabilities							
Due to other banks	21	635	234	507	-	-	**1,397**
Other financial liabilities at fair value	-	37	39	209	376	-	**661**
Derivative financial instruments	-	3	13	39	-	-	**55**
Due to customers	17,956	4,605	3,750	1,497	-	-	**27,808**
Liabilities on acceptances	-	7	-	-	-	-	**7**
Due to related entities	86	252	1,495	556	1,504	-	**3,893**
Bonds and notes	-	350	1,250	2,231	200	-	**4,031**
All other liabilities	74	-	-	-	-	2,304	**2,378**
Total liabilities	**18,137**	**5,889**	**6,781**	**5,039**	**2,080**	**2,304**	**40,230**

34. Maturity analysis of assets and liabilities (continued)

31 March 2010 (unaudited)	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m As restated
Assets							
Cash and balances with central banks	3,131	-	-	-	-	957	4,088
Due from related entities	438	215	2,393	-	-	-	3,046
Due from other banks	-	12	-	-	-	-	12
Investments							
- Available for sale	1	-	30	1,614	-	-	1,645
- Held to maturity	-	-	-	25	-	-	25
Other financial assets at fair value	489	101	555	2,125	2,250	-	5,520
Derivative financial instrument	-	2	126	723	-	-	851
Loans and advances to customers	2,956	3,327	1,222	3,886	15,103	507	27,001
Due from customers on acceptances	-	6	-	-	-	-	6
All other assets	121	-	-	-	-	1,155	1,276
Total assets	7,136	3,663	4,326	8,373	17,353	2,619	43,470
Liabilities							
Due to other banks	25	316	505	551	-	-	1,397
Other financial liabilities at fair value	244	403	1	12	45	-	705
Derivative financial instruments	7	1	10	88	-	-	106
Due to customers	17,439	5,057	4,191	1,574	-	-	28,261
Liabilities on acceptances	-	6	-	-	-	-	6
Due to related entities	189	924	904	614	855	-	3,486
Bonds and notes	-	-	184	4,057	450	-	4,691
All other liabilities	52	-	-	-	-	2,401	2,453
Total liabilities	17,956	6,707	5,795	6,896	1,350	2,401	41,105

34. Maturity analysis of assets and liabilities (continued)

30 September 2010 (audited)	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash and balances with central banks	3,224	-	-	-	-	846	4,070
Due from related entities	778	336	1,725	-	-	-	2,839
Due from other banks	-	11	-	-	-	-	11
Investments							
- Available for sale	-	-	-	2,256	6	-	2,262
Other financial assets at fair value	54	204	429	2,233	2,476	-	5,396
Derivative financial instrument	-	4	50	648	17	-	719
Loans and advances to customers	5,172	2,147	1,181	4,099	13,856	526	26,981
Due from customers on acceptances	-	8	-	-	-	-	8
All other assets	124	-	-	-	-	1,250	1,374
Total assets	9,352	2,710	3,385	9,236	16,355	2,622	43,660
Liabilities							
Due to other banks	43	617	202	511	-	-	1,373
Other financial liabilities at fair value	2	57	62	281	494	-	896
Derivative financial instruments	-	1	25	54	37	-	117
Due to customers	18,132	4,995	3,614	1,693	-	-	28,434
Liabilities on acceptances	-	8	-	-	-	-	8
Due to related entities	137	693	800	601	1,155	-	3,386
Bonds and notes	-	-	350	3,609	450	-	4,409
All other liabilities	77	-	-	-	-	2,413	2,490
Total liabilities	18,391	6,371	5,053	6,749	2,136	2,413	41,113

35. Interest rate sensitivity gap analysis

Part of the Group's return on financial instruments is obtained from controlled mis-matching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The tables below summarise these repricing mis-matches on the Group's book as at 31 March 2011, 31 March 2010 and 30 September 2010. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date or the maturity date.

31 March 2011 (unaudited)	Weighted average effective interest rate %	0 to 3 months £m	3 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Non interest bearing £m	Total £m
Assets										
Cash assets	0.49	2,926	-	-	-	-	-	-	898	**3,824**
Balances with supervisory central banks		-	-	-	-	-	-	-	28	**28**
Due from related entities		544	2,469	-	-	-	-	-	-	**3,013**
Due from other banks	0.49	16	-	-	-	-	-	-	-	**16**
Investments										
- Available for sale	1.46	731	266	-	50	-	-	750	-	**1,797**
Other financial assets at fair value	2.34	442	406	571	564	353	421	1,960	307	**5,024**
Derivative financial instruments		-	-	-	-	-	-	-	556	**556**
Loans and advances to customers	4.69	23,622	1,204	1,298	654	372	132	50	-	**27,332**
Due from customers on acceptances		7	-	-	-	-	-	-	-	**7**
All other assets		-	-	-	-	-	-	-	1,365	**1,365**
Total assets		**28,288**	**4,345**	**1,869**	**1,268**	**725**	**553**	**2,760**	**3,154**	**42,962**
Liabilities										
Due to other banks	0.89	662	735	-	-	-	-	-	-	**1,397**
Other financial liabilities at fair value	1.24	14	10	14	19	24	16	23	541	**661**
Derivative financial instruments		-	-	-	-	-	-	-	55	**55**
Due to customers	0.56	20,718	4,004	775	269	562	138	3	1,339	**27,808**
Liabilities on acceptances		7	-	-	-	-	-	-	-	**7**
Due to related entities		2,972	921	-	-	-	-	-	-	**3,893**
Bonds and notes	1.50	3,081	950	-	-	-	-	-	-	**4,031**
All other liabilities		-	-	-	-	-	-	-	2,378	**2,378**
Shareholders' equity		-	-	-	-	-	-	-	2,732	**2,732**
Total liabilities and shareholders' equity		**27,454**	**6,620**	**789**	**288**	**586**	**154**	**26**	**7,045**	**42,962**
Off balance sheet items		**(4,152)**	**5,093**	**157**	**334**	**455**	**544**	**(2,431)**	**-**	**-**
Interest rate sensitivity gap		**(3,318)**	**2,818**	**1,237**	**1,314**	**594**	**943**	**303**	**(3,891)**	**-**
Cumulative gap		**(3,318)**	**(500)**	**737**	**2,051**	**2,645**	**3,588**	**3,891**	**-**	**-**

35. Interest rate sensitivity gap analysis (continued)

31 March 2010 (unaudited)	**Weighted average effective interest rate %**	**0 to 3 months £m**	**3 to 12 months £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**Over 5 years £m**	**Non interest bearing £m**	**Total £m**
Assets										
Cash assets	0.50	3,103	-	-	-	-	-	-	957	4,060
Balances with supervisory central banks		-	-	-	-	-	-	-	28	28
Due from related entities		3,014	-	-	-	-	-	-	32	3,046
Due from other banks	0.44	12	-	-	-	-	-	-	-	12
Investments										
- Available for sale	1.47	1,204	125	267	-	49	-	-	-	1,645
- Held to maturity	0.73	25	-	-	-	-	-	-	-	25
Other financial assets at fair value	2.07	125	541	518	608	511	349	1,958	910	5,520
Derivative financial instruments		-	-	-	-	-	-	-	851	851
Loans and advances to customers	4.75	22,677	1,188	1,538	958	271	298	71	-	27,001
Due from customers on acceptances		-	-	-	-	-	-	-	6	6
All other assets		-	-	-	-	-	-	-	1,276	1,276
Total assets		30,160	1,854	2,323	1,566	831	647	2,029	4,060	43,470
Liabilities										
Due to other banks	0.83	392	505	500	-	-	-	-	-	1,397
Other financial liabilities at fair value	1.86	12	2	6	6	10	15	10	644	705
Derivative financial instruments		-	-	-	-	-	-	-	106	106
Due to customers	0.43	21,236	4,509	835	239	12	349	-	1,081	28,261
Liabilities on acceptances		-	-	-	-	-	-	-	6	6
Due to related entities		2,992	262	200	-	-	-	-	32	3,486
Bonds and notes	1.29	3,491	250	950	-	-	-	-	-	4,691
All other liabilities		-	-	-	-	-	-	-	2,453	2,453
Shareholders' equity		-	-	-	-	-	-	-	2,365	2,365
Total liabilities and shareholders' equity		28,123	5,528	2,491	245	22	364	10	6,687	43,470
Off balance sheet items		(3,875)	3,154	2,151	(225)	247	310	(1,762)	-	-
Interest rate sensitivity gap		(1,838)	(520)	1,983	1,096	1,056	593	257	(2,627)	-
Cumulative gap		(1,838)	(2,358)	(375)	721	1,777	2,370	2,627	-	-

35. Interest rate sensitivity gap analysis (continued)

30 September 2010 (audited)	**Weighted average effective interest rate %**	**0 to 3 months £m**	**3 to 12 months £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**Over 5 years £m**	**Non interest bearing £m**	**Total £m**
Assets										
Cash assets	0.51	3,194	-	-	-	-	-	-	846	4,040
Balances with supervisory central banks		-	-	-	-	-	-	-	30	30
Due from related entities		1,119	1,720	-	-	-	-	-	-	2,839
Due from other banks	0.51	11	-	-	-	-	-	-	-	11
Investments - Available for sale	1.39	1,071	125	266	-	50	-	750	-	2,262
Other financial assets at fair value	2.14	737	389	557	629	477	298	1,940	369	5,396
Derivative financial instruments		-	-	-		-	-	-	719	719
Loans and advances to customers	4.70	23,275	1,244	1,321	709	307	97	28	-	26,981
Due from customers on acceptances		8	-	-	-	-	-	-	-	8
All other assets		-	-	-	-	-	-	-	1,374	1,374
Total assets		29,415	3,478	2,144	1,338	834	395	2,718	3,338	43,660
Liabilities										
Due to other banks	0.86	671	202	500	-	-	-	-	-	1,373
Other financial liabilities at fair value	1.50	9	7	7	11	16	8	8	830	896
Derivative financial instruments		-	-	-	-	-	-	-	117	117
Due to customers	0.50	22,208	3,139	880	346	91	565	-	1,205	28,434
Liabilities on acceptances		8	-	-	-	-	-	-	-	8
Due to related entities		2,738	448	200	-	-	-	-	-	3,386
Bonds and notes	1.36	3,209	250	950	-	-	-	-	-	4,409
All other liabilities		-	-	-	-	-	-	-	2,490	2,490
Shareholders' equity		-	-	-	-	-	-	-	2,547	2,547
Total liabilities and shareholders' equity		28,843	4,046	2,537	357	107	573	8	7,189	43,660
Off balance sheet items		(3,296)	1,883	3,064	(188)	50	948	(2,461)	-	-
Interest rate sensitivity gap		(2,724)	1,315	2,671	793	777	770	249	(3,851)	-
Cumulative gap		(2,724)	(1,409)	1,262	2,055	2,832	3,602	3,851	-	-

A negative interest rate sensitivity gap exists when more liabilities than assets reprice during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within repricing periods and among currencies.

36. Basel II Capital Requirements Directive Pillar 3 Disclosure

The Financial Services Authority ("FSA") has granted the Bank a waiver direction under BIPRU 11.2.5: (Waiver: Comparable disclosures provided on a consolidated basis by a parent undertaking established in a third country).

The waiver direction can be found on the FSA website. http://www.fsa.gov.uk/pubs/waivers/bipru_waivers.pdf

In line with the FSA waiver direction, the Bank will rely on the following references to comparable National Australia Bank Limited consolidated disclosure to satisfy its Pillar 3 disclosure obligations:

National Australia Bank Limited 2010 Full Year Risk and Capital Report: http://www.nabgroup.com/0,,96819,00.html
National Australia Bank Limited 2010 Full Year Financial Results, Note 1, Section 6 (Supplementary Information): http://www.nabgroup.com/0,,102108,00.html
National Australia Bank Limited 2010 Annual Financial Report: http://www.nabgroup.com/0,,32863,00.html

With specific reference to securitisation policy, disclosure is made on pages 64 and 161-168 of the National Australia Bank Limited 2010 Annual Financial Report.

The first published disclosure was based on the financial position of CB PLC and NAB as at 30 September 2008. After due consideration by the CB PLC Directors, it was agreed that subsequent Pillar 3 disclosures would be made annually by way of the National Australia Bank Limited Risk and Capital Report. These disclosures will be in line with the FSA Waiver direction as outlined above.

The information contained in these qualitative disclosures has not been audited by the Group's external auditors except to the extent that they are equivalent to those made under accounting requirements and is limited to those required by BIPRU 11.

37. Events after the balance sheet date

Following publication on 20 April 2011 of the High Court's judgement regarding the Financial Service Authority's Policy Statement on Payment Protection Insurance complaints handling (PS 10/12) and the subsequent decision by the British Bankers' Association on 9 May 2011 not to appeal the decision, the Bank decided that it would be prudent to make provision for current and future claims. While there remain significant uncertainties in estimating the final cost to resolve this matter, an amount of £120m has been set aside and included in these Financial Statements to meet current and future claims and associated costs.

For more information

Website	cbonline.co.uk
Media	General media queryline 0845 60 35 447 press.office@nab.co.uk
National Australia Bank	NAB Group results are available on www.nabgroup.com.au

Clydesdale Bank Yorkshire Bank