Clydesdale Bank PLC

Interim financial report

For the six months ended 31 March 2013

Contents

Overview

Clydesdale Bank PLC (the "Bank"), together with its subsidiary undertakings (which together comprise the "Group"), is the United Kingdom retail and commercial banking business of National Australia Bank Limited ("NAB"). Its immediate parent is National Australia Group Europe Limited ("NAGE"). The Group operates under both the Clydesdale Bank and Yorkshire Bank brands. It offers a range of banking services for both personal and business customers through retail branches, business & private banking centres, direct banking and brokers.

Forward looking statements

This document contains certain forward looking statements with respect to the expectations, plans and aims of the Group relating to future performance, financial position and results. The Group considers the expectations these forward looking statements reflect to be reasonable. However, we can give no assurance that these expectations will not differ materially from actual outcomes. All forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. Factors beyond the Group's control include, amongst others, domestic UK and global economic and business conditions, the policies and actions of Governments and other regulatory bodies, changes in the tax regimes or other legislation in the jurisdictions the Group and its parent operate, market related risks such as interest or exchange rate movements, inflation, changes in customer preferences and the actions of competitors, the effect, timing and other uncertainties around future acquisitions or other combinations within relevant industries, delays in implementing proposals and risks effecting borrower credit quality. As a result, the Group recommends that readers of this document do not place undue reliance on such forward looking statements.

The Group undertakes no obligation to update any forward looking statements in light of any future events, new information or otherwise.

Clydesdale Bank   Yorkshire Bank

Officers and professional advisers

Directors	**Executive Chairman**	Cameron Clyne
	Non-executive	David Allvey * # David Browne * # Richard Gregory OBE * # James Pettigrew * Barbara Ridpath # Alexander Shapland #
	Executive	David Thorburn, Chief Executive Officer # John Hooper Mark Joiner Richard Sawers #
		* Member of the European Boards' Audit Committee # Member of the European Boards' Risk Committee
UK Executive Committee		David Thorburn, Chief Executive Officer John Hooper, Executive Director and Chief Operating Officer Scott Butterworth, Chief Financial Officer Debbie Crosbie, Operations & IT Director Jennifer Darbyshire, General Counsel & Company Secretary Eric Gunn, Chief Risk Officer Lynn McManus, People & Communications Director Kevin Page, Transformation Director Andrew Pearce, Retail Banking Director Paul Shephard, Business & Private Bank Director
Joint Company Secretary		Jennifer Darbyshire Lorna McMillan
Registered Office		30 St Vincent Place Glasgow, G1 2HL
Bankers		National Australia Bank Limited ("NAB")
Auditor		Ernst & Young LLP 1 More London Place London, SE1 2AF

Chairman's statement

Cameron Clyne

While the UK's economic environment remains challenging, the first half of our 2013 financial year has seen good progress made in implementing the outcomes of the strategic review announced in April 2012.

The majority of our commercial real estate assets were transferred to NAB on 5 October 2012, and the remainder of the restructuring programme is ahead of schedule.

These restructuring activities, and a disciplined focus on the portfolio of assets and costs, have ensured the Bank was profitable in the first half, underpinned by an improved balance sheet structure and funding position.

Looking ahead, we will build on the momentum from the transformation programme to further develop a resilient and competitive business model and deliver a successful long term future for our customers, employees and shareholder.

I would like to thank our employees for the professionalism and commitment that they continue to show in these difficult circumstances, and as the Bank celebrates its 175th anniversary.

Cameron Clyne

Cameron Clyne
Executive Chairman
15 May 2013

Chief Executive's statement

David Thorburn

As we celebrate the 175th anniversary of Clydesdale Bank, our goal is to be a strong, customer-focused bank for our communities.

In the first half of our financial year, we have made significant progress towards achieving this goal. There has been a substantial improvement to the structure and strength of our balance sheet driven by the outcomes of our strategic review. Despite the challenges of the economic environment, we increased our share of the mortgage market and returned to growth in personal lending. The remodelling and simplification of our Business & Private Banking activities has been successful and is largely complete. Implementation of the remaining outcomes of our strategic review is ahead of schedule. We have also made an important investment in our direct and mobile banking propositions.

These changes have enabled us to be profitable in the first half of 2013 and across our Clydesdale and Yorkshire Bank brands, we will build on that position with a clear focus on the customer, while maintaining a strong risk management culture balanced with achieving sustainable returns.

D Thorburn.

David Thorburn
Chief Executive Officer
15 May 2013

Business review

Key points

- The Group generated a profit after tax of £22m for the period ended 31 March 2013 compared to a loss after tax of £470m in the prior year and a loss after tax of £186m for the prior comparative period.
- The return to profit for the period is largely due to the decrease in bad and doubtful debt charges resulting from the transfer of the majority of the Group's commercial real estate ("CRE") assets to NAB, as well as implementing the restructuring activities announced in April 2012. Provisioning coverage (total provisions to gross loans and acceptances) has decreased to 1.43% (30 September 2012: 2.78%) reflecting the risk profile of the assets retained.
- The total Tier 1 capital ratio increased to 11.8% at the end of the period (from 9.6% at 30 September 2012) primarily driven by the reduction in CRE related risk-weighted assets.
- The Customer Funding Index ("CFI") and Stable Funding Index ("SFI") have strengthened to 91.6% and 108.2% respectively, up from 78.0% and 92.3% at September 2012.
- Reflecting success in our core strategy to increase our retail mortgage business, the business achieved mortgage growth of 9.1% over the prior comparative period compared to system growth of 1.5%*. The Group continues to actively manage the deposit mix to ensure an appropriate balance of customer funding within acceptable cost limits.

	6 months to 31 Mar 2013	6 months to 30 Sep 2012	6 months to 31 Mar 2012
Profit/(loss) after tax (£m)	**22**	(284)	(186)
Operating profit/(loss) after tax on average assets (1)	**0.11%**	(1.26)%	(0.81)%
Net interest margin (1)	**2.07%**	1.97%	2.11%
Cost to income ratio (2)	**73.4%**	77.2%	68.9%
Operating profit/(loss) after tax per FTE (£'000) (1)	**10**	(108)	(65)

(1) Annualised.

(2) 30 September 2012 has been adjusted to exclude the impact of restructuring expenses of £149m.

* Source: Bank of England – March 2013.

Business review (continued)

Our business

Overview

The Group operates a UK-focused retail and commercial banking business under the brand names “Clydesdale Bank” and “Yorkshire Bank”, primarily in Scotland and in the north of England. The Bank currently has 330 retail branches, 44 Business & Private Banking Centres, and employs 4,591* staff.

Operating environment

The challenging conditions in the UK economy continued, with a 0.3% increase in GDP in the quarter to March 2013 following a contraction of 0.3% in the December quarter of 2012.

The Office for Budget Responsibility has recently revised down its forecast for 2013 and 2014 growth and the other main indicators also reflect subdued economic activity. The inflation rate (as measured by annualised growth in the Consumer Prices Index of 2.8% at March 2013) remained above the Bank of England target of 2.0% and included an increase in domestic fuel bills. The unemployment rate as at February 2013 was 7.9%, with 2.56m people unemployed at that point, an increase of 70,000 over the past three months. However, there was a reduction in the number of Jobseeker’s Allowance claimants. The Bank of England Base Rate has remained at 0.5% since March 2009, which is the longest period of rate stability in the post-war era, although the spread between base rate and 3 month LIBOR has narrowed.

The housing market was broadly stable in the period although the Halifax house price survey shows prices are 20% below their peak valuation. Mortgage approvals are still running around half their long run-average.

The regulatory environment remains complex and under development in both the UK and Europe. On 1 April 2013, the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”) were created to replace the Financial Services Authority (“FSA”). In the period there were a number of changes and publications including the implementation of new rules for packaged bank accounts, an update on the Capital Requirements Directive CRD (IV) implementation schedule and the publication of a Policy Statement setting out the new rules for the mortgage market.

* This is the Clydesdale Bank PLC full time equivalent (“FTE”). UK Banking has 7,150 FTEs which includes employees working within other National Australia Group Europe Limited subsidiaries who provide support services to the Group.

Business review (continued)

Financial analysis

6 months to	Mar 13 £m	Sep 12 £m	Mar 12 £m	Mar 13 v Sep 12 %	Mar 13 v Mar 12 %
Net interest income	**369**	417	452	(11.4%)	(18.3%)
Non-interest income	**99**	47	81	Large	22.2%
Total operating income	**468**	464	533	1.0%	(12.1%)
Total operating expenses	**(344)**	(507)	(367)	32.2%	6.4%
Operating profit/(loss) before impairment losses	**124**	(43)	166	Large	(25.0%)
Impairment losses on credit exposures (1)	**(96)**	(321)	(416)	70.0%	76.9%
Profit/(loss) on ordinary activities before tax	**28**	(364)	(250)	Large	Large

	Mar 13 £m	Sep 12 £m	Mar 12 £m
Analysed as:			
Profit/(loss) before tax, Restructuring and Efficiency, quality and service initiatives , pension scheme reforms benefit, PPI redress expense, FSCS levy and Bank levy	**40**	(212)	(253)
Restructuring and Efficiency, quality and service initiatives	**-**	(149)	-
Pension scheme reforms benefit	**-**	-	130
Payment protection insurance redress expense	**-**	-	(120)
FSCS levy	**(12)**	(1)	(7)
Bank levy	**-**	(2)	-
Profit/(loss) on ordinary activities before tax	**28**	(364)	(250)
Tax (expense)/credit	**(6)**	80	64
Profit/(loss) attributable to equity holders	**22**	(284)	(186)

(1) Impairment provisions and impairment losses on credit exposures relate solely to Loans and Advances to Customers (see notes 10 and 11 to the interim financial report) and exclude the credit risk adjustments on loans at fair value through profit or loss which are incorporated in the movement in fair value assets within non-interest income.

Key balance sheet measures **Average volumes**	**6 months to 31 Mar 2013 £bn**	6 months to 30 Sep 2012 £bn	6 months to 31 Mar 2012 £bn
Gross loans and acceptances (2)	**27.5**	33.4	33.7
Interest earning assets	**35.8**	41.9	42.8
Total assets	**38.6**	44.5	45.9
Retail deposits (3)	**24.7**	25.1	24.2

(2) Gross loans and acceptances include gross loans and advances to customers, loans designated at fair value through profit or loss and amounts due from customers on acceptances. In the period to 30 September 2012, they also include assets held for sale reclassified from these categorisations.

(3) Retail deposits include current accounts, savings accounts, term deposits and business retail deposits.

Business review (continued)

Financial analysis (continued)

Six month period to March 2013 v six month period to September 2012

A profit after tax of £22m was earned in the current period compared to a loss of £284m in the 6 month period to September 2012.

Net interest income decreased by £48m (11.4%), which was largely due to the CRE portfolio transfer. This decrease also reflects the Financial Services Compensation Scheme ("FSCS") levy of £12m which is incurred in the first half of each financial year, and lower business lending volumes. These were partially offset by higher mortgage lending income and lower term deposit costs. The net interest margin increased by 10 basis points. This was driven by improved lending margins, improved retail deposit mix and the impact of the CRE transfer, partially offset by lower retail deposit returns and the FSCS levy.

Non-interest income increased by £52m (110.6%) driven by recovery in the value of the Group's overnight index swap portfolio, which economically hedges basis risk, and a lower charge for credit losses on the Group's fair value loan portfolio. This was partially offset by lower fees and commission income.

Operating expenses decreased by £163m (32.2%). The six month period ended 30 September 2012 included £149m of restructuring costs. The remaining reduction was driven by savings from various restructuring activities, including the transfer of the CRE portfolio and lower non-lending assets. This was partially offset by higher performance based incentives and a £23m charge for customer redress.

Impairment losses on credit exposures have decreased by £225m (70.0%). The decrease is mainly a result of the transfer of the CRE assets. The charge to provide for bad and doubtful debts of £96m is lower than the charge booked in the September 2012 half year (estimated at £100m when CRE is excluded). Mortgage losses remain broadly stable.

Average gross loans and acceptances, which incorporates loans accounted for at fair value, decreased by £5.9bn (17.8%) to £27.5bn. There was a £6.5bn reduction in business lending balances, which predominantly reflected the CRE portfolio transfer (£5.6bn spot balance at transfer date), with underlying attrition in the book reflecting negative system growth. Mortgage growth of 4.0% was higher than system growth of 0.6%*. The average unsecured personal lending book remained broadly stable.

Average retail deposits decreased by £0.4bn or 1.6%. This reflected the managed run-off of higher cost term deposits following the CRE transfer.

Six month period to March 2013 v six month period to March 2012

The profit after tax for the period of £22m was £208m higher than in the March 2012 half.

Net interest income decreased by £83m (18.3%). This was driven by lower business lending income, primarily due to the CRE portfolio transfer, higher term deposit costs and lower returns on non-interest bearing deposits. In addition, there was an increase in the FSCS levy and lower liquid asset income. These were partially offset by higher mortgage lending income, which reflected growth in this product. The net interest margin declined by 4 basis points. This was driven by higher retail and wholesale funding costs, mainly offset by improved lending margins and the impact of the CRE transfer.

Non-interest income increased by £18m (22.2%) principally due to a lower level of credit risk adjustments on loans at fair value.

* Source: Bank of England – March 2013.

Financial analysis (continued)

Six month period to March 2013 v six month period to March 2012 (continued)

Operating expenses decreased by £23m (6.4%). The reduction was driven by savings made from the various restructuring activities undertaken. This included lower personnel costs as a result of the reduction in FTEs and lower occupancy costs from the closure of Business & Private Banking centres. These were offset by a reversion to more normal expense settings across the business, including higher marketing costs, higher performance based incentives and an increase in the provision for customer redress.

Impairment losses on credit exposures decreased by £320m (76.9%). The decrease is mainly a result of the transfer of CRE assets. Mortgage losses are broadly stable and the performance of the unsecured retail portfolio remains sound.

Average gross loans and acceptances decreased by £6.2bn (18.5%). There was a £7.4bn reduction in business lending balances which predominantly reflected the CRE portfolio transfer, although underlying attrition in the book continued, reflecting negative system credit growth. Mortgage growth of 9.1% was substantially higher than system growth of 1.5%*. The average unsecured personal lending book remained broadly stable.

Average retail deposits of £24.7bn were £0.5bn higher than the March 2012 half reflecting the growth of term deposits in the second half of 2012 offset by managed reductions in the first half of 2013.

Investment spend

The Group continues to maintain its investment in the business at a similar level to that of prior years. This spend is focused on regulatory and compliance, efficiency and simplification, and revenue generation categories.

Key achievements during the first half of the year included significant progress being made on projects that will enable effective current account switching, the upgrade of our mortgage processing platform and ensuring effective regulatory reporting.

Continued progress on these initiatives as well as the completion of projects that will enhance our online channel capabilities, enable improved fraud protection on Retail Internet Banking along with the refresh and upgrade of the Payments infrastructure will be significant areas of focus for the second half of the year.

* Source: Bank of England – March 2013.

Business review (continued)

Asset quality

Provisions on credit exposures (£m)	As at **31 Mar 2013**	 30 Sep 2012	 31 Mar 2012
Specific provision for doubtful debts [1]	**136**	404	218
Collective provision for doubtful debts [1]	**170**	354	383
Credit risk adjustments on loans at fair value (£m)			
Individually assessed credit risk adjustments on loans at fair value	**21**	42	25
Collectively assessed credit risk adjustments on loans at fair value	**60**	126	133
Past due and impaired assets (£m)			
90+ Days Past Due (DPD) assets	**182**	322	265
Gross impaired assets [2] [5]	**463**	1,294	1,006
Asset quality measures (%)			
90+ DPD plus gross impaired assets to gross loans and acceptances [2]	**2.39%**	4.86%	3.79%
Specific provision to gross impaired assets [2]	**33.7%**	34.4%	24.2%
Net write-offs to gross loans and acceptances (annualised)	**0.65%**	1.05%	1.11%
Total provision as a percentage of net write-offs [3]	**216%**	265%	201%
Total provision to gross loans and acceptances [3]	**1.43%**	2.78%	2.26%
Bad and doubtful debt charge to credit risk weighted assets	**1.03%**	2.62%	3.31%
Impairment provisions on loans and advances (£m) [4]			
Business lending	**238**	698	538
Retail lending	**68**	60	63
	306	758	601

	6 months to		
	31 Mar 2013	30 Sep 2012	31 Mar 2012
Impairment losses on loans and advances	**£m**	£m	£m
Business lending	**70**	306	392
Retail lending	**26**	15	24
	96	321	416
Of which:			
Specific	**99**	350	277
Collective	**(3)**	(29)	139
	96	321	416

(1) Balances at 30 September 2012 include impairments associated with assets classified as held for sale.

(2) Gross impaired assets for March 2013, September 2012 and March 2012 include £55m, £109m and £52m gross impaired fair value assets respectively.

(3) Total provision to gross loans and acceptances / net write-offs includes the credit risk adjustments on loans at fair value through profit or loss.

(4) Impairment provisions on loans and advances include provisions in respect of assets held for sale at 30 September 2012.

(5) 30 September 2012 includes £842m in respect of assets held for sale.

Retail asset quality has improved due to lower default rates observed across the unsecured personal loan portfolio. Mortgage impaired loan levels have remained stable as a result of the prolonged period of low interest rates and broadly stable residential property prices.

Business review (continued)

Asset quality (continued)

The total 90+ DPD balances decreased through the half year to March 2013 to £182m, compared with £322m at September 2012. This followed the transfer of the majority of the UK Banking CRE portfolio to NAB. Excluding the transfer of CRE assets, 90+ DPD balances increased by £34m. The portfolio remains sensitive to economic conditions with the residual balance of 90+ DPD remaining higher than the long-term trend. Home loan 90+ DPD levels are stable with continued improvements in the unsecured portfolios.

The level of gross impaired assets has decreased to £463m in the half year to March 2013 primarily as a result of the CRE transfer. Excluding the transfer of assets to UK CRE, gross impaired assets increased by £98m. Hospitality related lending is the largest component of the impaired asset portfolio, reflecting the sector's sensitivity to the weak economic environment.

The overall collective provision for doubtful debts decreased during the period reflecting the reduction in the business lending portfolio. The personal lending collective provision remains at a stable level driven by the strong delinquency profile of these portfolios.

The ratio of total provisions to gross loans and acceptances decreased to 1.43% in March 2013. This reflects the change in the profile of the loan portfolio following the CRE transfer.

Capital position

The Clydesdale Bank PLC Core Tier 1 ratio (on a UK Prudential Regulatory Authority basis) increased from 8.4% in September 2012 to 10.4% and the Tier 1 ratio increased from 9.6% to 11.8%. This was predominantly due to the impact of the CRE portfolio transfer and the subsequent reduction in risk-weighted assets.

Regulatory capital	**As at**		
Tier 1 capital	**31 Mar 2013 £m**	30 Sep 2012 £m	31 Mar 2012 £m
Permanent share capital	**1,442**	1,442	1,442
Profit and loss and other reserves	**580**	475	931
Share premium account	**243**	243	243
Pension fund regulatory adjustments (1)	**(97)**	73	(84)
Perpetual non-cumulative preference shares	**300**	300	300
Deductions from Tier 1 capital	**(2)**	(2)	(1)
Total Tier 1 capital after deductions	**2,466**	2,531	2,831
Tier 2 capital			
Upper Tier 2 capital			
Revaluation reserves	**1**	1	2
General/collective provisions (2)	**175**	330	340
	176	331	342
Lower Tier 2 capital			
Undated subordinated debt	**1,076**	1,076	1,076
Deductions from Tier 2 capital	**(2)**	(2)	(1)
Total Tier 2 capital after deductions	**1,250**	1,405	1,417
Total capital after deductions (3)	**3,716**	3,936	4,248

Business review (continued)

Capital position (continued)

Risk-weighted assets (4)	As at 31 Mar 2013 £m	30 Sep 2012 £m	31 Mar 2012 £m
Retail mortgages	**6,198**	6,139	5,905
Business lending	**10,495**	15,758	17,006
Other retail lending	**1,075**	1,104	1,161
Other lending	**1,038**	1,133	1,034
Operational risk	**1,872**	1,872	2,075
Counterparty risk	**244**	370	377
Market risk	**1**	1	-
	20,923	26,377	27,558

Capital ratios	31 Mar 2013	30 Sep 2012	31 Mar 2012
Core Tier 1 ratio (5)	**10.4%**	8.4%	9.2%
Tier 1 ratio	**11.8%**	9.6%	10.3%
Total capital ratio	**17.8%**	14.9%	15.4%

(1) For regulatory capital purposes, the pension fund deficit is added back to regulatory capital and substituted with an estimate of additional pension fund contributions to be made over the next five years, adjusted for deferred tax.

(2) The collective provision add back is limited for regulatory capital purposes.

(3) There is no Tier 3 capital.

(4) Risk weighted assets are calculated under the standardised approach.

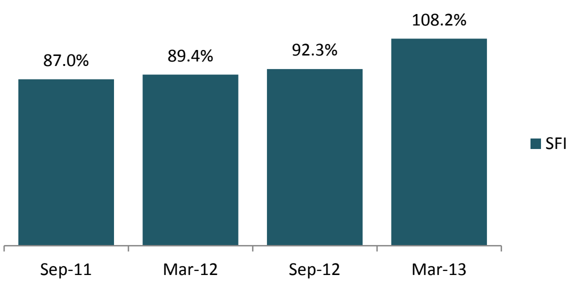
(5) Core Tier 1 capital is Tier 1 capital excluding perpetual non-cumulative preference shares.

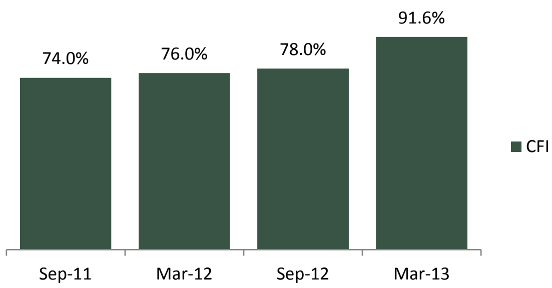
Regulatory capital to statutory equity reconciliation	As at 31 Mar 2013 £m	30 Sep 2012 £m	31 Mar 2012 £m
Regulatory Tier 1 capital	**2,466**	2,531	2,831
Reverse pension regulatory adjustments	**97**	(73)	84
Reverse deductions from capital	**2**	2	1
Revaluation reserves	**1**	1	2
Available for sale reserve	**3**	12	14
Cash flow hedge reserve	**93**	124	100
Share option reserve	**6**	5	19
SPE reserves	**-**	2	2
Total equity	**2,668**	2,604	3,053

Business review (continued)

Funding

Stable funding and customer funding indices





The improvement in the Group's funding indices was primarily due to the impact of the CRE transfer, offset by the impact of reducing higher cost term deposits. The CFI increased from 78.0% to 91.6% in the half and the SFI increased from 92.3% to 108.2%.

The Group maintained its ability to raise term funding with its covered bond and securitisation programmes retaining AAA ratings. It remains diversified in terms of the type of instrument and product, currency, counterparty, term structure and market.

The Group's long-term credit ratings are summarised below:

	Outlook as at	As at		
	15 May 2013	**31 Mar 2013**	30 Sep 2012	31 Mar 2012
Fitch	**Stable**	**A**	A	A
Moody's	**Stable**	**A2**	A2	A2
Standard & Poor's	**Positive**	**BBB+**	BBB+	BBB+

Liquid assets

	As at		
	31 Mar 2013 £bn	30 Sep 2012 £bn	31 Mar 2012 £bn
UK Government Treasury Bills and Gilts	**0.9**	0.9	1.3
Cash and cash at central bank	**5.1**	6.1	5.0
Note cover *	**2.0**	1.8	1.6
Interbank lending	**0.3**	0.1	0.1
Liquid assets	**8.3**	8.9	8.0

* Note cover is excluded from PRA regulatory liquidity.

The Group continues to hold £100m of floating rate notes issued by the European Investment Bank and has no direct exposure to any Eurozone Sovereigns as part of its liquidity portfolio.

Business review (continued)

Customers, employees and community

The Group continues to support its customers and the communities which it serves.

The Yorkshire and Clydesdale Bank Foundation provides financial support to a large number of charities across the UK. In the last six months the Foundation has distributed over £260,000 to over 270 worthy causes. The charity partnership with Help the Hospices is now in its fifth year and over £2.6m has been raised in this time. In February 2013, the Foundation announced the launch of its Spirit of the Community awards which will see £250k donated to charities across the Bank in June and July 2013. This includes £175,000 in recognition of Clydesdale Bank's 175th anniversary. In addition, over 20% of employees currently donate to their chosen charities through Payroll Giving and the Group's Employee Volunteering Policy offers all employees the opportunity to take two days paid leave to work in the local community.

During the period, the Group won two "Your Mortgage" Awards, with Yorkshire Bank named "Best Regional Mortgage Lender" for the fourteenth time overall and Clydesdale Bank named "Best Mortgage Lender in Scotland" for the ninth consecutive year.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge these interim condensed consolidated financial statements have 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 Group's Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Jennifer Darbyshire
Secretary
15 May 2013

ERNST & YOUNG

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 2013 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes 1 to 23. 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 Bank 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 Bank, 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 Standards 34, "Interim Financial Reporting," as adopted by the European Union.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs 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 Clydesdale Bank PLC 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 2410 (UK and Ireland), "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 2013 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
15 May 2013

Interim condensed consolidated financial statements

Contents

Interim condensed consolidated income statement
for the six months ended 31 March 2013

	Note	**6 months to 31 Mar 2013 (unaudited) £m**	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Interest income and similar income		**618**	737	1,461
Interest expense and similar charges		**(249)**	(285)	(592)
Net interest income	3	**369**	452	869
Gains less losses on financial instruments at fair value		**(1)**	(48)	(123)
Other operating income		**100**	129	251
Non-interest income	4	**99**	81	128
Total operating income		**468**	533	997
Personnel expenses		**(100)**	(130)	(225)
Depreciation expense		**(9)**	(10)	(19)
Other operating expenses		**(235)**	(227)	(481)
Restructuring and Efficiency, quality and service initiatives		**-**	-	(149)
Total operating expenses before impairment losses	5	**(344)**	(367)	(874)
Operating profit before impairment losses		**124**	166	123
Impairment losses on credit exposures	11	**(96)**	(416)	(737)
Profit/(loss) on ordinary activities before tax		**28**	(250)	(614)
Analysed as:				
Profit/(loss) before tax, pension scheme reforms benefit, PPI redress expense, FSCS levy and bank levy		**40**	(253)	(614)
Pension scheme reforms benefit		**-**	130	130
Payment Protection Insurance redress expense	14	**-**	(120)	(120)
Financial Services Compensation Scheme levy	19	**(12)**	(7)	(8)
Bank levy		**-**	-	(2)
Profit/(loss) on ordinary activities before tax		**28**	(250)	(614)
Tax (expense)/credit	6	**(6)**	64	144
Profit/(loss) for the period attributable to the equity holders of the parent		**22**	(186)	(470)

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

The notes on pages 22 to 56 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income
for the six months ended 31 March 2013

	6 months to 31 Mar 2013 (unaudited) £m	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Profit/(loss) for the period	**22**	(186)	(470)
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
(Losses)/gains during the year	**(42)**	(28)	2
Transfers to the income statement	**-**	-	(1)
Taxation thereon	**11**	8	3
	(31)	(20)	4
Change in available for sale investments reserve			
(Losses)/gains during the year	**(12)**	1	(1)
Transfers to the income statement	**-**	(4)	(4)
Taxation thereon	**3**	1	1
	(9)	(2)	(4)
Total items that may be reclassified to the income statement	**(40)**	(22)	-
Items that will not be reclassified to the income statement			
Actuarial gains/(losses) on defined benefit pension plans	**124**	(132)	(344)
Taxation thereon	**(28)**	24	64
	96	(108)	(280)
Change in asset revaluation reserve			
Decrement on revaluation	**-**	-	(1)
	-	-	(1)
Total items that will not be reclassified to the income statement	**96**	(108)	(281)
Other comprehensive income/(losses) net of tax	**56**	(130)	(281)
Total comprehensive income/(losses) for the period net of tax	**78**	(316)	(751)
Attributable to equity holders of the parent	**78**	(316)	(751)

The notes on pages 22 to 56 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated balance sheet
as at 31 March 2013

	Note	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Assets				
Cash and balances with central banks		**7,114**	6,598	7,923
Due from related entities	7	**1,036**	1,411	1,256
Due from other banks		**188**	15	14
Investments – available for sale		**1,026**	1,006	1,039
Other financial assets at fair value	8	**2,526**	4,558	2,791
Derivative financial instruments	9	**520**	816	600
Loans and advances to customers	10	**24,026**	28,196	24,346
Due from customers on acceptances		**5**	7	7
Current tax assets		**35**	86	55
Property, plant and equipment		**119**	144	128
Investment properties		**70**	80	77
Property inventory		**7**	9	9
Investments in joint ventures and associates		**3**	3	3
Deferred tax assets	13	**204**	149	249
Other assets		**599**	519	499
Assets held for sale	12	**-**	-	5,225
Total assets		**37,478**	43,597	44,221
Liabilities				
Due to other banks		**425**	676	557
Other financial liabilities at fair value	8	**135**	153	147
Derivative financial instruments	9	**725**	882	952
Due to customers		**25,160**	25,619	26,381
Liabilities on acceptances		**5**	7	7
Provisions	14	**212**	189	292
Due to related entities	7	**2,682**	8,648	7,527
Bonds, notes and subordinated debt	15	**3,108**	2,431	3,163
Retirement benefit obligations	16	**77**	90	306
Deferred tax liabilities	13	**28**	24	21
Other liabilities		**2,253**	1,825	2,122
Liabilities associated with assets held for sale	12	**-**	-	142
Total liabilities		**34,810**	40,544	41,617
Equity (parent entity interest)				
Share capital	17	**1,742**	1,742	1,742
Share premium	18	**243**	243	243
Other reserves	18	**441**	473	480
Retained earnings	18	**242**	595	139
Total equity		**2,668**	3,053	2,604
Total liabilities and equity		**37,478**	43,597	44,221

The notes on pages 22 to 56 form an integral part of these interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors on 15 May 2013 and were signed on its behalf by:

D Thorburn.

David Thorburn
Chief Executive Officer

Interim condensed consolidated statement of changes in equity
for the six months ended 31 March 2013

	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 2011 (audited)		1,242	243	338	14	2	16	120	904	2,879
Loss for the period		-	-	-	-	-	-	-	(186)	(186)
Other comprehensive losses		-	-	-	-	-	(2)	(20)	(108)	(130)
Total comprehensive losses for the period		-	-	-	-	-	(2)	(20)	(294)	(316)
Dividends paid – preference shares		-	-	-	-	-	-	-	(15)	(15)
Shares issued – ordinary	17	500	-	-	-	-	-	-	-	500
Share options granted		-	-	-	5	-	-	-	-	5
As at 31 March 2012 (unaudited)		**1,742**	**243**	**338**	**19**	**2**	**14**	**100**	**595**	**3,053**
Loss for the period		-	-	-	-	-	-	-	(284)	(284)
Other comprehensive (losses)/ income		-	-	-	-	(1)	(2)	24	(172)	(151)
Total comprehensive (losses)/ income for the period		-	-	-	-	(1)	(2)	24	(456)	(435)
Share options granted		-	-	-	6	-	-	-	-	6
Share options settled		-	-	-	(20)	-	-	-	-	(20)
As at 30 September 2012 (audited) (1)		**1,742**	**243**	**338**	**5**	**1**	**12**	**124**	**139**	**2,604**
Profit for the period		-	-	-	-	-	-	-	22	22
Other comprehensive (losses)/income		-	-	-	-	-	(9)	(31)	96	56
Total comprehensive (losses)/income for the period		-	-	-	-	-	(9)	(31)	118	78
Dividends paid – preference shares		-	-	-	-	-	-	-	(15)	(15)
Share options granted		-	-	-	1	-	-	-	-	1
As at 31 March 2013 (unaudited)		**1,742**	**243**	**338**	**6**	**1**	**3**	**93**	**242**	**2,668**

(1) The closing balances as at 30 September 2012 have been audited; however, the movements in the individual six month periods to 31 March and 30 September 2012 are unaudited.

The notes on pages 22 to 56 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows
for the six months ended 31 March 2013

	Note	**6 months to 31 Mar 2013 (unaudited) £m**	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Operating activities				
Profit/(loss) on ordinary activities before tax		**28**	(250)	(614)
Adjustments for:				
Non-cash or non-operating items included in profit/(loss) before tax	20	**(313)**	21	(136)
Changes in operating assets	20	**5,576**	20	463
Changes in operating liabilities	20	**(1,811)**	(3,736)	(2,172)
Interest received		**582**	875	1,563
Interest paid		**(166)**	(354)	(451)
Tax received/(paid)		**52**	(18)	4
Net cash provided by/(used in) operating activities		**3,948**	(3,442)	(1,343)
Cash flows from investing activities				
Interest received		**5**	7	12
Proceeds from sale or maturity of investments		**50**	104	71
Proceeds from sale of tangible fixed assets*		**15**	60	38
Purchase of tangible fixed assets*		**(6)**	(41)	(13)
Purchase of available for sale investments		**(50)**	-	-
Net cash provided by investing activities		**14**	130	108
Cash flows from financing activities				
Interest received		**2**	10	13
Interest paid		**(67)**	(111)	(229)
Proceeds from ordinary shares issued	17	**-**	500	500
Redemption of subordinated debt	15	**-**	(200)	(200)
Maturity of medium term notes	15	**-**	(1,250)	(1,898)
Other movements in bonds and notes		**(55)**	(184)	(936)
Issuance of residential mortgage backed securities	15	**-**	512	2,644
Net decrease in amount due from related entities		**220**	3,539	3,694
Net (decrease)/increase in amounts due to related entities		**(4,964)**	890	(233)
Dividends paid		**(15)**	(15)	(15)
Net cash (used in)/provided by financing activities		**(4,879)**	3,691	3,340
Net (decrease)/increase in cash and cash equivalents		**(917)**	379	2,105
Cash and cash equivalents at the beginning of the period		**7,949**	5,844	5,844
Cash and cash equivalents at the end of the period	20	**7,032**	6,223	7,949

* Tangible fixed assets include property, plant and equipment, investment properties and property inventory.

The notes on pages 22 to 56 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

1. Basis of preparation and accounting policies

Statement of compliance

These interim condensed consolidated financial statements for the six months ended 31 March 2013 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union ("EU"). They do not include all the information required by International Financial Reporting Standards ("IFRS") in full annual financial statements and should be read in conjunction with the Annual Report and Consolidated Financial Statements for the year ended 30 September 2012 which were prepared in accordance with IFRS as adopted by the EU. Copies of these can be obtained from www.cbonline.co.uk/media/results-financial-information/.

The information in these interim condensed consolidated financial statements is unaudited and does not constitute annual accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). Statutory accounts for the year ended 30 September 2012 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and they did not contain any statements under Section 498 of the Act.

Going concern

The Group'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, note 40 to the Annual Report and Consolidated Financial Statements for the year ended 30 September 2012 includes the Group's risk management objectives and note 41 to those financial statements includes the Group's objectives, policies and processes for managing its capital.

The Group has access to financial resources and a stable customer deposit base. The Group's ultimate parent, NAB, provides funding to the Group in the ordinary course of business. As a consequence the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing these interim condensed consolidated financial statements.

Accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's Annual Report and Consolidated Financial Statements for the year ended 30 September 2012. Comparatives are presented on a basis that conforms to the current presentation.

Critical accounting estimates and judgements

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 estimated. There have been no significant changes to the bases upon which estimates have been determined from those applied in the Group's Annual Report and Consolidated Financial Statements for the year ended 30 September 2012, which are set out on pages 45 and 46 of those Statements.

Accounting developments

An overview of pronouncements that will be relevant to the Group in future periods is provided on pages 43 to 45 of the Group's Annual Report and Consolidated Financial Statements for the year ended 30 September 2012.

1. Basis of preparation and Accounting Policies (continued)

The following Amendments have been adopted in the current financial period and are not considered to have a material impact on these interim condensed consolidated financial statements:

- *Amendment to IAS 1*, issued 16 June 2011 and effective for financial periods beginning on or after 1 July 2012. The amendment sets out enhanced presentation requirements for items of other comprehensive income. The main change is for items presented to be grouped into those that will be reclassified subsequently to profit or loss when specific conditions are met and those that will not be reclassified to profit or loss.
- *Amendments to IAS 12 Income Taxes,* issued 20 December 2010 and effective for financial years beginning on or after 1 January 2012. This amendment enhances the methodology for measuring the effect of deferred tax relating to the recovery of an entity's investment property assets.

There have been no material pronouncements issued since the publication of the Group's Annual Report and Consolidated Financial Statements for the year ended 30 September 2012.

2. Segment information

The Group's operating 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.

The Group's business is organised into two principal operating segments: Business & Private Banking (including business centres, small business and private banking customers) and Retail Banking.

The Group's Central Functions are Finance, Risk, Operations & IT, Legal & Governance, CEO Office Support, Treasury, Human Resources, together with other functions which are not considered to be separate reportable operating segments.

Business & Private Banking, Retail Banking and Central Functions along with the UK-based wealth management business of the NAB Group and elements of the mid corporate lending on the NAB Group Wholesale Banking balance sheet comprise UK Banking.

The reconciliation from UK Banking to statutory results table on page 25 shows other segments and adjustments, which are deductions for the wealth management business and mid corporate lending on the NAB Group Wholesale Banking balance sheet which are not part of Clydesdale Bank PLC. Also included are adjustments to incorporate Wholesale Banking business written on the Clydesdale Bank PLC balance sheet not included within UK Banking.

Business & Private Banking

Business & Private Banking provides a range of banking products and services to all segments of business and private customers, including loans and finance, day to day banking, wealth management, international services and treasury solutions.

Retail Banking

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

Major customers

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

Geographical areas

The Group has no material operations outside the UK and therefore no secondary geographical area information is presented.

Notes to the interim condensed consolidated financial statements (continued)

2. Segment information (continued)

Further details of the NAB Group's operating segments including UK Banking and how they are evaluated are contained within note 2 of NAB Group's Annual Report and Consolidated Financial Statements for the year ended 30 September 2012. The segment information below has been prepared on the same basis. The accounting policies of the operating segments are consistent with those described in note 2 to the Group financial statements for the year ended 30 September 2012.

Operating Segments 6 months ended 31 Mar 2013 (unaudited)	**Business & Private £m**	**Retail £m**	**Central and Other Functions £m**	**UK Banking £m**
Net interest income	172	203	(7)	368
Other operating income	44	64	14	122
Operating income	216	267	7	490
Operating expenses	(49)	(75)	(221)	(345)
Impairment losses on credit exposures	(70)	(21)	-	(91)
Segment operating profit/(loss)	97	171	(214)	54
Tax (expense)/credit	(23)	(40)	50	(13)
Segment cash earnings after tax	**74**	**131**	**(164)**	**41**
Average assets	**13,412**	**13,824**	**11,740**	**38,976**

Operating Segments 6 months ended 31 Mar 2012 (unaudited)	Business & Private £m	Retail £m	Central and Other Functions £m	UK Banking £m
Net interest income	212	200	38	450
Other operating income	96	72	(26)	142
Operating income	308	272	12	592
Operating expenses	(68)	(74)	(206)	(348)
Impairment losses on credit exposures	(262)	(23)	3	(282)
Segment operating profit/(loss)	(22)	175	(191)	(38)
Tax credit/(expense)	6	(44)	51	13
Segment cash earnings after tax	(16)	131	(140)	(25)
Average assets	20,974	12,025	13,353	46,352

2. Segment information (continued)

Operating Segments 12 months ended 30 Sep 2012 (audited)	Business & Private £m	Retail £m	Central and Other Functions £m	UK Banking £m
Net interest income	399	392	73	864
Other operating income	176	145	(40)	281
Operating income	575	537	33	1,145
Operating expenses	(139)	(155)	(403)	(697)
Impairment losses on credit exposures	(629)	(35)	33	(631)
Segment operating (loss)/profit	(193)	347	(337)	(183)
Tax credit/(expense)	48	(86)	82	44
Segment cash earnings after tax	(145)	261	(255)	(139)
Average assets	20,080	12,736	12,815	45,631

Reconciliation to statutory results 6 months ended 31 Mar 2013 (unaudited)	**UK Banking £m**	**Non-cash earnings items £m**	**Other segments and adjustments £m**	**Clydesdale Bank PLC £m**
Net interest income	368	-	1	369
Other operating income	122	(9)	(14)	99
Operating income	490	(9)	(13)	468
Operating expenses	(345)	-	1	(344)
Impairment losses on credit exposures	(91)	-	(5)	(96)
Operating profit/(loss)	54	(9)	(17)	28
Tax (expense)/credit	(13)	2	5	(6)
	41	(7)	(12)	22
Items outside of UK Banking cash earnings after tax:				
Fair value and hedge ineffectiveness	(7)	7	-	-
Profit/(loss) after tax	**34**	**-**	**(12)**	**22**
Average assets	**38,976**	**-**	**(367)**	**38,609**

Notes to the interim condensed consolidated financial statements (continued)

2. Segment information (continued)

Reconciliation to statutory results 6 months ended 31 Mar 2012 (unaudited)	UK Banking £m	Non-cash earnings items £m	Other segments and adjustments £m	Clydesdale Bank PLC £m
Net interest income	450	-	2	452
Other operating income	142	(28)	(33)	81
Operating income	592	(28)	(31)	533
Operating expenses	(348)	(20)	1	(367)
Impairment losses on credit exposures	(282)	(150)	16	(416)
Operating loss	(38)	(198)	(14)	(250)
Tax credit	13	49	2	64
Cash earnings after tax	(25)	(149)	(12)	(186)
Items outside of UK Banking cash earnings after tax:				
Fair value and hedge ineffectiveness	(28)	28	-	-
Payment Protection Insurance redress	(91)	91	-	-
Impairment losses on credit exposures	(113)	113	-	-
Pension contribution from ultimate parent	98	(98)	-	-
Reorganisation and other costs	(15)	15	-	-
Loss after tax	(174)	-	(12)	(186)
Average assets	46,352	-	(453)	45,899

Reconciliation to statutory results 12 months ended 30 Sep 2012 (audited)	UK Banking £m	Non-cash earnings items £m	Other segments and adjustments £m	Clydesdale Bank PLC £m
Net interest income	864	-	5	869
Other operating income	281	(79)	(74)	128
Operating income	1,145	(79)	(69)	997
Operating expenses	(697)	(165)	(12)	(874)
Impairment losses on credit exposures	(631)	(150)	44	(737)
Operating loss	(183)	(394)	(37)	(614)
Tax credit	44	90	10	144
Cash earnings after tax	(139)	(304)	(27)	(470)
Items outside of UK Banking cash earnings after tax:				
Fair value and hedge ineffectiveness	(67)	67	-	-
Payment Protection Insurance redress	(92)	92	-	-
Impairment losses on credit exposures	(113)	113	-	-
Pension contribution from ultimate parent	98	(98)	-	-
Reorganisation and other costs	(130)	130	-	-
Loss after tax	(443)	-	(27)	(470)
Average assets	45,631	-	(425)	45,206

Notes to the interim condensed consolidated financial statements (continued)

3. Net interest income

	6 months to 31 Mar 2013 (unaudited) £m	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Interest income			
Loans and advances to other banks	**16**	12	27
Available for sale investments	**5**	7	13
Loans and advances to customers	**561**	638	1,271
Due from related entities (note 7)	**2**	10	14
Other interest income	**-**	3	7
	584	670	1,332
Financial assets at fair value through profit or loss	**34**	67	129
Total interest income	**618**	737	1,461
Interest expense			
Due to other banks	**1**	4	6
Financial liabilities at fair value through profit or loss	**1**	1	2
Due to customers	**167**	161	347
Bonds and notes	**39**	19	53
Due to related entities (note 7)	**29**	93	176
Other interest expense	**12**	7	8
Total interest expense	**249**	285	592
Net interest income	**369**	452	869

4. Non-interest income

	6 months to 31 Mar 2013 (unaudited) £m	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Gains less losses on financial instruments at fair value			
Movement in fair value of assets	**(52)**	(98)	(121)
Interest rate derivatives	**39**	38	(12)
Foreign exchange derivatives	**11**	11	21
Ineffectiveness arising from fair value hedges	**1**	1	(12)
Ineffectiveness arising from cash flow hedges	**-**	-	1
	(1)	(48)	(123)
Other operating income			
Fees and commission	**98**	(3)	106
Net fair value movement on investment properties	**-**	(5)	(7)
Gain on disposal of tangible fixed assets*	**-**	-	10
Other income	**2**	137	142
	100	129	251
Total non-interest income	**99**	81	128

* Tangible fixed assets include property, plant and equipment, investment properties and property inventory.

Fees and commission income is reported net of charges of £Nil for Payment Protection Insurance redress. £120m was incurred in the 6 month period to March 2012 with no additional charge in the second half. Also included is £1m income in relation to financial instruments at fair value through profit or loss (March 2012: £4m and September 2012: £5m).

Other income includes a contribution of £Nil to the defined benefit pension scheme from NAB. £130m was received in the 6 month period to March 2012 with no further contributions received in the second half of 2012.

4. Non-interest income (continued)

The movement in fair value of assets incorporates valuation movements for certain financial assets which are designated at inception as fair value through profit or loss. These assets are predominantly fixed interest rate loans. They are fair valued with the movements in fair value taken through the income statement as part of non-interest income. 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. This valuation technique is reflective of current market conditions and is regularly reviewed to ensure it appropriately captures the continued economic uncertainty and volatility currently being experienced in the markets.

5. Operating expenses

	6 months to 31 Mar 2013 (unaudited) £m	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Personnel expenses			
Salaries, wages and non-cash benefits	**75**	83	164
Related personnel expenses	**7**	8	14
Defined contribution pension expense	**4**	5	10
Defined benefit pension expense	**10**	13	19
Equity-based compensation	**1**	5	11
Other personnel expenses	**3**	16	7
	100	130	225
Depreciation expense			
Depreciation of property, plant and equipment	**9**	10	19
Other operating expenses			
Operating lease rental	**17**	19	38
Other occupancy charges	**21**	21	41
Related entity recharges (note 7)	**123**	141	273
Other operating expenses	**74**	46	129
	235	227	481
Restructuring and Efficiency, quality and service initiatives	**-**	-	149
Total operating expenses	**344**	367	874

Notes to the interim condensed consolidated financial statements (continued)

6. Taxation

The reconciliation from the charge implied by the standard rate of UK Corporation tax (23.5%) to the actual tax charge is as follows:

	6 months to 31 Mar 2013 (unaudited) £m	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Profit/(loss) on ordinary activities before tax	**28**	(250)	(614)
Tax charge/(credit) based on the standard rate of Corporation Tax in the UK of 23.5% (March and September 2012: 25%)	**6**	(62)	(154)
Effects of:			
Expenses not deductible for tax purposes	**1**	1	5
Bank levy	**-**	-	1
Rate differences	**(1)**	(3)	3
Adjustments in respect of prior periods	**(1)**	(1)	(1)
Other	**1**	1	2
Actual tax expense/(credit) for the period/year	**6**	(64)	(144)

7. Related party transactions

The Group is wholly owned by its immediate parent, NAGE, which heads the smallest group in which the results of the Group are consolidated. NAGE is incorporated in the UK and registered in England. The ultimate parent entity of the Group is NAB, which heads the largest group in which the Group's results are consolidated. NAB is incorporated in the State of Victoria, Australia.

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

The Group 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.

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

Amounts due from related entities	**31 Mar 2013 (unaudited) £m**	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Loans			
Ultimate parent	**1,016**	1,390	1,215
Other receivables			
Ultimate parent	**19**	7	34
Controlled entities of the ultimate parent	**1**	14	7
	20	21	41
Total amounts due from related entities	**1,036**	1,411	1,256

Interest income of £2m was earned on loans to the ultimate parent in the six months ended 31 March 2013 (six months ended March 2012: £10m and year ended 30 September 2012: £14m) (note 3).

Notes to the interim condensed consolidated financial statements (continued)

7. Related party transactions (continued)

Reverse repurchase agreements

Included in amounts due from related entities is £Nil (March 2012: £351m and September 2012: £Nil) for securities purchased under agreements to resell. As part of these reverse repurchase agreements, the Group 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 2013 amounts to £Nil (March 2012: £352m and September 2012: £Nil) for the Group, of which £Nil (March 2012: £Nil and September 2012: £Nil) has been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

Amounts due to related entities	**31 Mar 2013 (unaudited) £m**	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Deposits			
Ultimate parent	**1,554**	7,507	6,392
Subordinated liabilities			
Ultimate parent	**550**	550	550
Controlled entities of the ultimate parent	**526**	526	526
	1,076	1,076	1,076
Other payables			
Ultimate parent	**13**	25	20
Controlled entities of the ultimate parent	**39**	40	39
	52	65	59
Total amounts due to related entities	**2,682**	8,648	7,527

Interest expense on amounts due to related entities (note 3)	**6 months to 31 Mar 2013 (unaudited) £m**	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Ultimate parent	**24**	87	163
Controlled entities of the ultimate parent	**5**	6	13
Total interest expense on amounts due to related entities	**29**	93	176

The decrease in deposits due to the ultimate parent reflects funds repaid following the completion of the transfer of the CRE assets on 5 October 2012 (note12).

Securitisation

The Group has securitised part of its residential mortgage portfolio and the cash raised via the issue of residential mortgage backed securities ("RMBS") through special purpose entities forms part of the Group's medium term funding. A portfolio of buy to let mortgages has been securitised via the Lannraig Master Trust Issuer programme and a total of £457m (March 2012: £491m and September 2012: £474m) of the securities issued have been purchased by the Group's ultimate parent.

Other transactions with related entities	**6 months to 31 Mar 2013 (unaudited) £m**	6 months to 31 Mar 2012 (unaudited) £m	12 months to 30 Sep 2012 (audited) £m
Non-interest income received			
Controlled entities of the ultimate parent	**4**	4	9
Administrative expenses (note 5)			
Ultimate parent	**(4)**	4	8
Controlled entities of the ultimate parent	**127**	137	265
	123	141	273

8. Other financial assets and liabilities at fair value

Financial assets	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Other financial assets at fair value through profit or loss			
Loans and advances	**2,526**	4,558	2,791
Other financial liabilities at fair value through profit or loss			
Due to customers – term deposits	**135**	153	147

Derivatives which did not meet the requirements for hedge accounting and that are related to loans held at fair value through profit or loss are accounted for as derivative financial instruments (note 9).

Loans and advances

Included in other financial assets at fair value is a portfolio of loans. Interest rate risk associated with these loans is managed using interest rate derivative contracts, and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £2,526m (March 2012: £4,558m and September 2012: £2,791m). The cumulative movement in fair value of the loans attributable to changes in credit risk amounts to £81m (March 2012: £158m and September 2012: £82m) and the change for the current period is £1m (March 2012: £1m and September 2012: £76m).

The designated loans were historically classified as level 2 in the fair value hierarchy as their value was principally determined using directly observable inputs other than directly quoted prices. The expected changes in fair value of the designated loans attributable to credit risk are calculated using an established statistical based calculation to estimate expected losses attributable to adverse movements in credit risk. The Group ceased further sales of this suite of loan products with effect from 30 April 2012. This led to a reduction in the level of observable inputs resulting in the loans being reclassified at 30 September 2012 as level 3 in the fair value hierarchy.

Due to customers - term deposits

Included in other financial liabilities at fair value are fixed rate 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's credit risk is £Nil (March 2012: £Nil and September 2012: £Nil). The Bank is contractually obligated to pay £14m (March 2012: £16m and September 2012: £16m) less than the carrying amount at maturity to the deposit holder.

The term deposits are classified as level 3 in the fair value hierarchy as their value is determined using valuation techniques where one or more significant inputs are unobservable.

Notes to the interim condensed consolidated financial statements (continued)

9. Derivative financial instruments

Derivative financial instruments are disclosed as follows:

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Fair value of derivative financial assets			
Designated as hedging instruments	**25**	400	160
Designated as held for trading	**205**	260	261
Designated as held for trading – related entities	**290**	156	179
	520	816	600
Fair value of derivative financial liabilities			
Designated as hedging instruments	**139**	91	187
Designated as held for trading	**32**	47	55
Designated as held for trading – related entities	**554**	744	710
	725	882	952

The derivative financial instruments held by the Group are classified as level 2 in the fair value hierarchy as their value is determined using directly observable inputs other than directly quoted prices.

Derivative financial instruments held by the Group are further analysed as follows:

Total derivative contracts as at 31 March 2013 (unaudited)	**Contract amount £m**	**Fair value of assets £m**	**Fair value of liabilities £m**
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	9,600	6	6
Fair value hedges			
Interest rate swaps	1,458	-	133
Foreign exchange rate swaps	1,023	19	-
	2,481	19	133
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	4,159	51	38
Swaps	510	106	6
Options	418	5	5
	5,087	162	49
Interest rate related contracts			
Swaps	33,564	318	501
Swaptions	178	2	3
Options	866	11	31
	34,608	331	535
Commodity related contracts	68	2	2
Total derivative contracts	**51,844**	**520**	**725**

Notes to the interim condensed consolidated financial statements (continued)

9. Derivative financial instruments (continued)

Total derivative contracts as at 31 March 2012 (unaudited)	Contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	10,080	140	8
Fair value hedges			
Interest rate swaps	758	-	80
Foreign exchange rate swaps	1,702	260	3
	2,460	260	83
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	3,426	35	38
Swaps	506	97	3
Options	565	5	5
	4,497	137	46
Interest rate related contracts			
Swaps	36,385	245	676
Swaptions	431	12	13
Options	1,497	19	53
	38,313	276	742
Commodity related contracts	56	3	3
Total derivative contracts	55,406	816	882

Total derivative contracts as at 30 September 2012 (audited)	Contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	8,970	160	2
Fair value hedges			
Interest rate swaps	1,458	-	133
Foreign exchange rate swaps	1,023	-	52
	2,481	-	185
Derivatives designated as held for trading			
Spot, forward and futures contracts	3,785	43	48
Swaps	504	78	6
Options	542	6	6
	4,831	127	60
Interest rate related contracts			
Swaps	41,476	280	638
Swaptions	398	11	11
Options	1,350	20	54
	43,224	311	703
Commodity related contracts	75	2	2
Total derivative contracts	59,581	600	952

The contract amount is the amount from which the cash flows from the derivative contracts are derived and is not an indication of the amounts at risk relating to these contracts.

9. Derivative financial instruments (continued)

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

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 ("MTN") programmes and cash flow hedges.

The carrying value of the foreign 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 cash flows reduce. In the six month period to 31 March 2013, the Group adjusted its cash flow hedging strategy but not the principal risk being hedged and the derivatives were de-designated and re-designated. The re-designation is to 3 month LIBOR assets.

10. Loans and advances to customers

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Overdrafts	**2,195**	3,923	2,346
Credit cards	**412**	452	436
Lease finance	**581**	813	694
Mortgages	**15,688**	14,623	15,369
Other term lending – business	**4,780**	8,357	5,151
Other term lending – retail	**744**	761	730
Other lending	**37**	46	51
Gross loans and advances to customers	**24,437**	28,975	24,777
Unearned income	**(61)**	(110)	(78)
Deferred and unamortised fee income	**(44)**	(68)	(58)
Impairment provisions on credit exposures (note 11)	**(306)**	(601)	(295)
	24,026	28,196	24,346

The Group has transferred £4,722m (March 2012: £4,665m and September 2012: £4,364m) of mortgages through securitisation arrangements that do not qualify for de-recognition from the balance sheet. The mortgages do not qualify for de-recognition because the Group remains exposed to the risks and rewards of ownership on an on-going basis. Prior to any relevant hedging arrangements the Group continues to be exposed primarily to the credit risk, liquidity risk and interest rate risk of the mortgages. The Group is also exposed to the residual rewards of the mortgages as a result of its ability to benefit from the future performance of the mortgages through the receipt of deferred consideration. The carrying amount of the associated liability before transactional costs is £2,480m (March 2012: £2,303m and September 2012: £2,553m).

Included within loans and advances to customers are £2,562m (March 2012: £1,995m and September 2012: £2,498m) of mortgages assigned to two bankruptcy remote special purpose entities, Clydesdale Covered Bonds LLP and Clydesdale Covered Bonds LLP No 2. These loans provide security for issues of covered bonds made by the Group. These transactions do not qualify for de-recognition from the balance sheet. At 31 March 2013 there were £600m (March 2012: £600m and September 2012: £600m) of covered bonds in issue under the covered bond programmes, which are held by the Group.

The Group also has a portfolio of fair valued business loans and advances (note 8). Combined with the above this is equivalent to total loans and advances of £26,552m (March 2012: £32,754m and September 2012: £27,137m). At September 2012 there were also loans and advances and fair value business loans classified as assets held for sale of £5,189m (see note 12).

10. Loans and advances to customers (continued)

Maximum exposure to credit risk

The maximum exposure to credit risk is disclosed in note 21.

Distribution of loans and advances by credit quality

As at 31 March 2013 (unaudited)	**Retail overdrafts £m**	**Credit cards £m**	**Lease finance £m**	**Mortgages £m**	**Business lending * £m**	**Other retail lending £m**	**Total £m**
Gross loans and advances:							
Neither past due nor impaired	108	391	548	15,246	6,439	569	**23,301**
Past due but not impaired	13	21	12	372	255	55	**728**
Impaired	-	-	21	70	317	-	**408**
	121	**412**	**581**	**15,688**	**7,011**	**624**	**24,437**

As at 31 March 2012 (unaudited)	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	Business lending * £m	Other retail lending £m	Total £m
Gross loans and advances:							
Neither past due nor impaired	143	425	785	14,293	10,827	779	27,252
Past due but not impaired	12	27	19	266	417	28	769
Impaired	-	-	9	64	881	-	954
	155	452	813	14,623	12,125	807	28,975

As at 30 September 2012 (audited)	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	Business lending * £m	Other retail lending £m	Total £m
Gross loans and advances:							
Neither past due nor impaired	132	415	661	14,994	7,016	529	23,747
Past due but not impaired	12	21	19	304	274	57	687
Impaired	-	-	14	71	258	-	343
	144	436	694	15,369	7,548	586	24,777

***** Business lending includes business overdrafts.

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 Group's customers. This system assigns an indication of the probability of default for each customer and can be broadly mapped to external agencies rating scales. Impaired assets consist of business lending and secured personal lending where current circumstances indicate that losses of loan principal and/or interest may be incurred.

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.

10. Loans and advances to customers (continued)

Distribution of loans and advances neither past due nor impaired (continued)

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

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Senior investment grade	**1,076**	1,366	1,419
Investment grade	**1,660**	2,611	2,020
Sub-investment grade	**4,251**	7,693	4,238
	6,987	11,670	7,677

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 ratings 12 to 23.

The loan to value of retail mortgage lending coupled with the relationship of the debt to customers income are key to credit quality of these loans. The table below sets out the indexed loan to value analysis of the Group's retail mortgages:

	31 Mar 2013 (unaudited) %	31 Mar 2012 (unaudited) %	30 Sep 2012 (audited) %
Less than 50%	**22**	21	21
50% to 75%	**41**	38	40
76% to 80%	**9**	9	9
81% to 85%	**7**	7	7
86% to 90%	**6**	6	6
91% to 95%	**5**	5	5
96% to 100%	**3**	4	4
Greater than 100%	**4**	5	4
Unknown	**3**	5	4
	100	100	100

10. Loans and advances to customers (continued)

Loans and advances which were past due but not impaired

Loans and advances that are past due but not impaired are classified as such for secured lending 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. The distribution of loans and advances that are past due but not impaired are analysed below:

As at 31 March 2013 (unaudited)

	Retail overdrafts £m	**Credit cards £m**	**Lease finance £m**	**Mortgages £m**	**Business lending * £m**	**Other retail lending £m**	**Total £m**
1 to 29 days past due	8	9	11	170	147	42	**387**
30 to 59 days past due	2	3	1	107	14	5	**132**
60 to 89 days past due	1	2	-	16	6	2	**27**
Past due over 90 days	2	7	-	79	88	6	**182**
	13	**21**	**12**	**372**	**255**	**55**	**728**

As at 31 March 2012 (unaudited)

	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	Business lending * £m	Other retail lending £m	Total £m
1 to 29 days past due	7	13	19	84	225	13	361
30 to 59 days past due	2	3	-	70	24	5	104
60 to 89 days past due	1	3	-	28	4	3	39
Past due over 90 days	2	8	-	84	164	7	265
	12	27	19	266	417	28	769

As at 30 September 2012 (audited)

	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	Business lending * £m	Other retail lending £m	Total £m
1 to 29 days past due	8	8	18	111	173	44	362
30 to 59 days past due	2	3	1	79	9	4	98
60 to 89 days past due	1	3	-	36	6	3	49
Past due over 90 days	1	7	-	78	86	6	178
	12	21	19	304	274	57	687

***** Business lending includes business overdrafts

11. Impairment provisions on credit exposures

As at 31 March 2013 (unaudited)	**Retail overdrafts £m**	**Credit cards £m**	**Lease finance £m**	**Mortgages £m**	**Business lending * £m**	**Other retail lending £m**	**Total £m**
Opening balance	10	13	7	22	228	15	**295**
Charge for the period	4	8	1	6	70	7	**96**
Amounts written off	(4)	(9)	(1)	(5)	(66)	(8)	**(93)**
Recoveries of amounts written off in previous years	1	1	-	-	6	-	**8**
Closing balance	**11**	**13**	**7**	**23**	**238**	**14**	**306**
Specific	-	-	6	16	114	-	**136**
Collective	11	13	1	7	124	14	**170**
	11	**13**	**7**	**23**	**238**	**14**	**306**

As at 31 March 2012 (unaudited)	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	Business lending * £m	Other retail lending £m	Total £m
Opening balance	10	17	6	26	294	21	374
Charge for the period	5	8	2	5	390	6	416
Amounts written off	(6)	(11)	(5)	(9)	(156)	(12)	(199)
Recoveries of amounts written off in previous years	-	1	-	-	7	2	10
Closing balance	9	15	3	22	535	17	601
Specific	-	-	3	14	201	-	218
Collective	9	15	-	8	334	17	383
	9	15	3	22	535	17	601

As at 30 September 2012 (audited)	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	Business lending * £m	Other retail lending £m	Total £m
Opening balance	10	17	6	26	294	21	374
Charge for the year	7	13	7	10	691	9	737
Amounts written off	(10)	(22)	(6)	(14)	(308)	(22)	(382)
Recoveries of amounts written off in previous years	3	5	-	-	14	7	29
Transfer to assets held for sale (note 12)	-	-	-	-	(463)	-	(463)
Closing balance	10	13	7	22	228	15	295
Specific	-	-	6	14	106	-	126
Collective	10	13	1	8	122	15	169
	10	13	7	22	228	15	295

***** Business lending includes business overdrafts.

11. Impairment provisions (continued)

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Amounts included in			
Loans and advances to customers (note 10)	**306**	601	295
Non-accrual loans			
Loans and advances to customers	**408**	954	343
Specific provisions	**(136)**	(218)	(126)
	272	736	217

12. Assets held for sale

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Assets held for sale			
Other financial assets at fair value	-	-	1,475
Gross loans and advances to customers	-	-	4,177
	-	-	5,652
Impairment provisions on credit exposures	-	-	(463)
Derivative financial instruments	-	-	(4)
Deferred tax	-	-	20
Other assets	-	-	20
	-	-	5,225
Liabilities associated with assets held for sale			
Derivative financial instruments	-	-	142

The assets held for sale were transferred to NAB on 5 October 2012 following the strategic review undertaken by the Group. The credit quality details of these loans and advances held for sale at 30 September 2012 can be found in note 24 of the Annual Report and Consolidated Financial Statements at 30 September 2012.

13. Deferred tax

The Group recognises deferred tax attributable to the following items:

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Deferred tax assets			
Defined benefit pension liability	**17**	23	70
Impairment provision on credit exposures	**13**	20	14
Employee equity based compensation	**4**	5	4
Tax losses carried forward	**103**	-	92
Provisions	**39**	41	59
Accelerated capital allowances	**20**	-	-
Other	**8**	60	10
	204	149	249
Deferred tax liabilities			
Accelerated capital allowances	**-**	(9)	(18)
Net gain on revaluation of properties	**1**	2	1
Cash flow hedge reserve	**26**	31	37
Other	**1**	-	1
	28	24	21

13. Deferred tax (continued)

The Group considers it probable that sufficient future taxable profits will be available against which the underlying deductible temporary differences can be utilised. The largest deferred tax asset held within the Group relates to tax losses carried forward. The tax losses carried forward have been assessed for recoverability against the Group's forecasts which include adjustments for future strategic changes, the future economic outlook and regulatory change. Current UK tax legislation does not specify a maximum forecast horizon to utilise losses, despite this the losses are expected to be fully utilised within the assessment period.

The Finance Bill 2012 was substantively enacted on 3 July 2012. The reduction to the standard rate of corporation tax from 24% to 23% will be effective from 1 April 2013. Accordingly this rate has been used to calculate the deferred tax asset held by the Group. A further reduction is anticipated until the rate reaches 20% in 2015. Additional changes will be enacted separately each year.

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 20% is expected to be £23m (equivalent to 3% of the closing gross deferred tax balance).

14. Provisions

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Payment Protection Insurance redress provision			
Opening balance	**108**	102	102
Charge to the income statement	**-**	120	120
Provision utilised	**(57)**	(53)	(114)
Closing balance	**51**	169	108
Customer redress and other provisions			
Opening balance	**58**	6	6
Charge to the income statement	**38**	16	57
Provision utilised	**(9)**	(2)	(5)
Closing balance	**87**	20	58
Restructuring provisions			
Opening balance	**126**	-	-
Charge to the income statement	**-**	-	149
Provision utilised	**(52)**	-	(23)
Closing balance	**74**	-	126
Total provisions	**212**	189	292

Payment Protection Insurance redress

As at 31 March 2013, the Group is carrying a provision of £51m (March 2012: £169m and September 2012: £108m) to cover potential customer claims for refunds of premiums associated to the mis-selling of Payment Protection Insurance ("PPI") policies. The provision is based upon known pipeline cases and expectations of future claims, and is management's current best estimate of expected costs.

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 prospect of the mis-selling being established in relation to those claims. The final amount required to settle the potential liability is therefore uncertain.

14. Provisions (continued)

Provision for customer redress and other provisions

A provision for customer redress is held in those instances where the Group expects to make payments to customers whether on an ex-gratia or compensatory basis. Provisions can arise as a result of legal or regulatory action and incorporate the costs of skilled persons, and where appropriate other elements of administration.

Other provisions include those in respect of legal proceedings and claims arising in the ordinary course of the Group's business. None of these are deemed to be individually material in relation to the Group's operations.

On 29 June 2012, the FSA announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on certain interest rate hedging products that were offered to small and medium sized entities.

The Group agreed to participate in this exercise as announced by the FSA on 23 July 2012 and has embarked on a structured programme to identify those small and medium sized customers that may have been affected. The exercise voluntarily incorporates certain of the Group's tailored business loan products as well as the stand alone hedging products identified in the FCA's notice.

The total cost of this exercise is uncertain and subject to a number of estimates, many of which require agreement with the FCA.

A further charge of £38m for customer redress and other provisions, including an increase in the amount held for the interest rate hedging review, has been raised in the period and reflects management's best estimate of this as at 31 March 2013.

Restructuring provision

Following the announcement of the results of the UK Banking strategic review on 30 April 2012, a further restructuring provision of £139m was raised in May 2012. The provision covers redundancy payments, lease break fees, surplus space costs and associated enablement costs. In the period to 31 March 2013 utilisation of £52m, principally for the reduction of roles, the closure of 38 Financial Service Centres and two Customer Service Centres and the associated provisionable enablement costs of delivery of these activities has occurred.

15. Bonds, notes and subordinated debt

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Medium term notes	**-**	623	-
Residential mortgage backed securities	**2,030**	1,812	2,094
Covered bonds	**1,096**	-	1,096
Total bonds, notes and subordinated debt	**3,126**	2,435	3,190
Fair value hedge adjustments	**(18)**	(4)	(27)
	3,108	2,431	3,163

16. Retirement benefit obligations

The Group is the sponsoring employer in one funded defined benefit scheme, the Yorkshire and Clydesdale Bank Pension Scheme ("the Scheme"). The assets of the Scheme are held in a trustee administered fund. The Group also provides post-retirement health care benefits under a defined benefit scheme for pensioners and their dependent relatives for which provision has been made.

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Defined benefit assets	**2,877**	2,506	2,485
Defined benefit obligation	**(2,949)**	(2,591)	(2,786)
Net defined benefit pension scheme obligation	**(72)**	(85)	(301)
Post-retirement medical benefits obligation	**(5)**	(5)	(5)
Net retirement benefits obligation	**(77)**	(90)	(306)

17. Called up share capital

Allotted, called up and fully paid	**31 Mar 2013 (unaudited) £m**	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Ordinary shares of £1 each			
Opening ordinary share capital	**1,442**	942	942
Issued during the period	**-**	500	500
Closing ordinary share capital	**1,442**	1,442	1,442
Preference shares of £1 each			
Opening and closing preference share capital	**300**	300	300
Closing called up share capital	**1,742**	1,742	1,742

The preference shares on issue have all been classified as equity instruments. Further details of the terms of the preference shares on issue can be found in note 31 of the Annual Report and Consolidated Financial Statements for the year ended 30 September 2012.

18. Total equity

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Share capital (note 17)	**1,742**	1,742	1,742
Share premium account	**243**	243	243
Total share capital and share premium	**1,985**	1,985	1,985
Merger reserve	**338**	338	338
Share option reserve	**6**	19	5
Asset revaluation reserve	**1**	2	1
Available for sale investments reserve	**3**	14	12
Cash flow hedge reserve	**93**	100	124
Total other reserves	**441**	473	480
Retained earnings	**242**	595	139
Total equity	**2,668**	3,053	2,604

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 ("AFS") investments.

Cash flow hedge reserve

The cash flow hedge reserve records fair value revaluations of derivatives designated as cash flow hedging instruments to the extent that they are effective.

As at 31 March 2013 the cash flow hedge reserve principally relates to crystallised gains as a result of de-designation of the principal macro cash flow hedge (note 9).

19. Contingent liabilities and commitments

The table below sets out the contractual amounts of contingent liabilities and commitments. Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts 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.

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Contingent liabilities			
Guarantees and assets pledged as collateral security:			
At call	**1**	-	1
Due in less than 3 months	**30**	59	57
Due between 3 months and 1 year	**68**	45	44
Due between 1 year and 3 years	**42**	53	70
Due between 3 years and 5 years	**3**	11	4
Due after 5 years	**97**	111	102
No specified maturity	**9**	15	8
	250	294	286
Other commitments:			
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**8,616**	10,110	9,290

Other contingent liabilities

The Group 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 is expected to arise from the ultimate resolution of these legal actions.

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 largely repaid from the realisation of the assets of the institutions. The FSCS has estimated levies due to 31 March 2014 from the banking industry to support interest payments on the borrowings and certain expected shortfalls in recoveries. An accrued expense of £20m (March 2012: £11m and September 2012: £8m) is presently held for the 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.

Notes to the interim condensed consolidated financial statements (continued)

20. Notes to the interim condensed consolidated statement of cash flows

	6 months to 31 Mar 2013 (unaudited) £m	6 months to 31 Mar 2012 (audited) £m	12 months to 30 Sep 2012 (audited) £m
Adjustments included in the profit/(loss) before tax			
Interest receivable	**(618)**	(737)	(1,461)
Interest payable	**249**	285	592
Depreciation (note 5)	**9**	10	19
Profit on sale of tangible fixed assets*	**-**	(3)	(10)
Loss on revaluation of tangible fixed assets*	**-**	-	10
Transfer from available for sale reserve	**-**	(4)	(4)
Transfer from cash flow hedge reserve	**-**	-	(1)
Derivative financial instruments fair value movements	**(50)**	49	(9)
Impairment losses on credit exposures (note 11)	**96**	416	737
Movement in the share option reserve	**1**	5	(9)
	(313)	21	(136)
Changes in operating assets			
Net increase in:			
Balances with supervisory central banks	**-**	(2)	(2)
Due from other banks	**(174)**	(3)	(2)
Derivative financial instruments	**88**	59	429
Financial assets at fair value through profit or loss	**265**	353	2,055
Loans and advances to customers	**224**	(374)	3,155
Due from customers on acceptances	**2**	-	-
Other assets	**(54)**	(13)	53
Assets held for sale	**5,225**	-	(5,225)
	5,576	20	463
Changes in operating liabilities			
Net decrease in:			
Due to other banks	**(128)**	(1,041)	(783)
Derivative financial instruments	**(227)**	10	21
Financial liabilities at fair value through profit or loss	**(12)**	(61)	(8)
Due to customers	**(1,221)**	(2,551)	(1,789)
Liabilities on acceptances	**(2)**	-	-
Provisions (note 14)	**(80)**	81	184
Defined benefit pension obligations	**(105)**	(227)	(223)
Other liabilities	**106**	53	284
Liabilities associated with assets held for sale	**(142)**	-	142
	(1,811)	(3,736)	(2,172)

* Tangible fixed assets include property, plant and equipment, investment properties and property inventory.

20. Notes to the interim condensed consolidated statement of cash flows (continued)

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

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Cash assets	**1,226**	1,038	1,123
Balances with central banks	**5,888**	5,560	6,800
Less mandatory deposits with central banks	**(31)**	(31)	(31)
Other assets	**170**	152	153
Due to other banks	**(5)**	(384)	(9)
Due to related entities	**(132)**	(12)	(13)
Other liabilities	**(84)**	(100)	(74)
	7,032	6,223	7,949

21. Financial risk management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk from any decrease in the fair value of fixed rate assets or increase in fair value of fixed rate liabilities using interest rate and cross currency swaps. The net fair value of these swaps is disclosed in note 9. There were no transactions for which fair value hedge accounting had to be discontinued in the period.

Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to interest rate risk arising from variable interest rate assets and liabilities using interest rate swaps, forward rate agreements and futures contracts. There were no transactions for which cash flow hedge accounting had to be discontinued in the period as a result of the highly probable cash flows no longer being expected to occur. As explained further in note 9 the Group adjusted its cash flow hedging strategy during the period. The fair value of derivatives entered into is also disclosed in note 9.

Credit risk

Credit risk is inherent within any transaction that creates an actual or potential obligation for a borrower to pay the Group. Credit risk is the risk that a borrower will fail to meet its obligations to the Group in accordance with agreed terms.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees where appropriate.

21. Financial risk management (continued)

Credit risk (continued)

Derivatives

The Group maintains control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Credit-related commitments

Credit-related commitments are facilities where the Group is under a legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation, to withdraw or suspend the facilities. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry similar credit risk to loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Forbearance

The Group operates a range of forbearance measures across its retail home loan and commercial book when customers have been identified as experiencing a period of financial difficulty or distress. A range of parameters are considered when the Group looks to identify those customers to whom forbearance would be applicable and these parameters are regularly reviewed and refined as necessary to ensure they are consistent with the latest industry guidance and prevailing practice as well as ensuring that they adequately capture and reflect the most recent customer behaviours and market conditions.

The Group considers that forbearance takes place when a concession is granted to a customer with affordable terms and conditions that are more suitable to the customer's current circumstances than those originally contracted for. The Group remains committed in ensuring that any forbearance strategy agreed with a customer is both affordable and sustainable for the customer with the ultimate aim of minimising the risk of losses for the Group and its customers.

The Group exercises forbearance in two distinct areas: retail and non-retail.

Retail forbearance

For retail (primarily mortgage) forbearance, the Group makes every effort to follow its principles of treating customers fairly by working with customers, at as early a stage as possible, in times of distress in order to find a solution that enables the Group to continue its relationship with the customer but with the ultimate aim of minimising the risk of the customer losing their home where this is in the interest of the customer.

21. Financial risk management (continued)

Credit risk (continued)

Retail forbearance (continued)

The Group operates the following range of forbearance measures for retail customers on a case by case basis:

- Formal rehabilitations: these can include an arrangement with the customer to repay any arrears over a shorter period than capitalisation would involve. It can also involve the capitalisation of arrears, which are then added to the remaining capital balance of the loan to be repaid over the remaining term.
- Temporary concessions: these are usually short-term measures (which can include reduced payment concessions and temporary transfers to interest only terms for example) that allow for a specified period of relief for customers to facilitate their anticipated return to the previous terms or completion of the sale of the property which could lead to a full recovery by the Group.
- Conversion to interest only repayments: this allows the customer to maintain payments with the intention that the capital balance outstanding would be recovered at the end of the term through the sale of the property or by some other repayment vehicle.
- Extensions to the loan term: this allows the customer to make lower repayments whilst still repaying the outstanding balance in full.

Retail home loans subject to forbearance are of low financial significance in the context of the Group's overall lending operations. The tables below summarise the number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. Where a customer is subject to more than one forbearance measure, they have been categorised into the primary method of forbearance:

As at 31 March 2013 (unaudited)	**Number of loans**	**Loan balance £m**	**% of total portfolio**	**Impairment allowance £m**	**% coverage**
Temporary forbearance	262	18	0.11	1	5.56
Interest only conversion	5	-	0.00	-	0.00
Term extension	5	-	0.00	-	0.00
Formal arrangements	721	59	0.38	2	3.39
Other arrangements	4	-	0.00	-	0.00
	997	**77**	**0.49**	**3**	**3.90**

As at 30 September 2012 (audited)	Number of loans	Loan balance £m	% of total portfolio	Impairment allowance £m	% coverage
Temporary forbearance	210	17	0.11	1	5.88
Interest only conversion	27	2	0.01	-	0.00
Term extension	15	1	0.00	-	0.00
Formal arrangements	673	52	0.34	2	3.85
Other arrangements	9	-	0.00	-	0.00
	934	72	0.46	3	4.17

The Group also has a number of customers with interest only mortgages past maturity. The Group has formal processes embedded to track and facilitate pro-active customer engagement to bring the cases to a formal conclusion which is generally aimed to be achieved within six months of maturity. At 31 March 2013, the Group had 177 customers on interest only mortgages which were post six month maturity with a total value of £19m, where action is underway to achieve resolution.

21. Financial risk management (continued)

Credit risk (continued)

Retail forbearance (continued)

A further forbearance reserve of £4m (September 2012: £4m) is presently held within the overall collective provision. The effect of this on the above tables would be to increase the impairment allowance noted above to £7m (September 2012: £7m) and to increase overall coverage to 9.09% (September 2012: 9.72%).

When all other avenues of resolution including forbearance have been explored the Group will take steps to repossess and sell underlying collateral. In the period to 31 March 2013 there were 97 repossessions including 24 voluntary (year ended September 2012: 200 including 50 voluntary).

The Group also currently exercises limited forbearance strategies in relation to unsecured loans and credit cards which mainly consist of term extensions (subject to negotiations with the customer) for the former and reduced payment arrangements for the latter. Forbearance strategies implemented on unsecured loans and credit cards are of low financial significance in the context of the Group's overall lending operations.

Non-retail forbearance

Non-retail forbearance is considered to take place where the Group grants a concession for reasons relating to the actual, or apparent, financial stress of a non-retail customer, which provides a customer with more favourable terms and conditions than those provided at drawdown of the facility. It is a consequence of concerns about the borrower's ability to meet the contracted repayments when due and specifically relates to such instances where the changes to the arrangement have been made on terms that the Group would not ordinarily consider on a commercial basis. In these instances, non-retail forbearance would be considered to be in place until such time (minimum six months or three payment cycles) as there is evidence to show a significant reduction in the risk of non-payment from future cash flows.

Forbearance is considered to exist where one or more of the following occurs, on a non-commercial basis, for reasons relating to the actual or apparent stress of a customer:

- Extending of loan facility payment term or an overdraft which is not fluctuating (e.g. where a Term Loan has matured and the balance passed to an overdraft, which is then extended on a non-commercial basis then forbearance is considered to exist).
- Deferral of contracted capital repayments (i.e. capital repayment holiday, conversion to interest only for an extended period, or rescheduling).
- Reduction in the contracted interest rate, including a reduction in the level of accrued interest or amendment to original fee structure.
- Use of alternative forms of payment, including debt for equity and asset transfer.
- Debt forgiveness.

A waiver of a Covenant breach, or amendment to the terms of a Covenant, is not in itself viewed as resulting in forbearance. Covenant breaches would not in themselves necessarily reflect financial difficulty. Where Covenant breaches have occurred which could imply financial stress, normal impaired asset review procedures are followed in line with Group Credit Policy.

Notes to the interim condensed consolidated financial statements (continued)

21. Financial risk management (continued)

Credit risk (continued)

Non-retail forbearance (continued)

Where a customer has multiple facilities and forbearance is considered to exist for one or more of these facilities, then the total amount of the debt will be considered as forbearance. Where a customer is part of a larger group, forbearance is exercised and reported across the group at the individual entity level and would include all group entities.

If facilities have been extended pending review and no concession has been granted for reasons relating to the actual or apparent financial stress of a customer, then forbearance is not considered to exist.

A reduction in asset quality does not automatically result in the position being considered forbearance.

Where changes are made to the terms of a borrower's repayment arrangement on a commercial basis this is not considered to imply forbearance.

Where the Group has made a demand for repayment the definition of forbearance will no longer be met as the facilities are withdrawn and a debt repayment process, through realisation of security or otherwise, is instigated.

The tables below summarise the total number of arrangements in place and the loan and impairment provisions associated with those arrangements, with the September 2012 comparative position being shown excluding the assets held for sale which were subsequently sold in October 2012 to aid comparison. Where a customer is subject to more than one forbearance measure, they have been categorised into the primary method of forbearance:

As at 31 March 2013 (unaudited)	**Number**	**£m**	**% of total portfolio**	**Impairment allowance £m**	**% coverage**
Term extension	274	146	1.43	13	8.90
Deferral of contracted capital payments	152	197	1.93	36	18.27
Reduction in contracted interest rate	6	46	0.45	18	39.13
Debt forgiveness	8	68	0.67	16	23.53
Alternative forms of payment	11	23	0.23	2	8.70
	451	**480**	**4.71**	**85**	**17.71**

As at 30 September 2012 (audited)	Number	£m	% of total portfolio	Impairment allowance £m	% coverage
Term extension	307	129	1.19	8	6.20
Deferral of contracted capital payments	112	116	1.07	11	9.48
Reduction in contracted interest rate	8	9	0.08	-	-
Debt forgiveness	12	59	0.54	13	22.03
Alternative forms of payment	14	40	0.37	10	25.00
	453	353	3.25	42	11.90

21. Financial risk management (continued)

Credit risk (continued)

Non-retail forbearance (continued)

The comparative figures for the year ended 30 September 2012 have been restated to conform with the current period presentation. The Group now reports non-retail forbearance at a customer level rather than a facility level, resulting in a customer with forbearance on one or more facilities now being recorded as a single customer but at a value which incorporates all facilities and the related impairment allowance irrespective of whether each individual facility is subject to forbearance. This change in treatment has resulted in adjustments to the category numbers and values of facilities recorded as non-retail forbearance as at 30 September 2012 and an overall increase in the level of the related impairment allowance of £11m.

Maximum exposure to credit risk

The Group's credit exposure has been determined in accordance with capital adequacy guidelines. The Group has comprehensive credit risk management policies that restrict the level of exposure to any one borrower or group of borrowers, industries and countries. Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through use of master netting and collateral agreements. The table also shows the maximum amount of commitments from its banking operations.

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Cash and balances with central banks	**7,114**	6,598	7,923
Due from related entities (note 7)	**1,036**	1,411	1,256
Due from other banks	**188**	15	14
Investments – available for sale	**1,026**	1,006	1,039
Other financial assets at fair value (note 8)	**2,526**	4,558	2,791
Derivative financial assets (note 9)	**520**	816	600
Loans and advances to customers (note 10)	**24,026**	28,196	24,346
Due from customers on acceptances	**5**	7	7
Assets held for sale	**-**	-	5,225
	36,441	42,607	43,201
Contingent liabilities (note 19)	**250**	294	286
Commitments (note 19)	**8,616**	10,110	9,290
Commitments relating to assets held for sale	**-**	-	140
Maximum credit risk exposure	**45,307**	53,011	52,917

Notes to the interim condensed consolidated financial statements (continued)

21. Financial risk management (continued)

Credit risk (continued)

Credit quality of investments

The credit quality of the Group's AFS investments, which are neither past due nor impaired, is as follows:

	31 Mar 2013 (unaudited) £m	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Senior investment grade	**1,019**	999	1,032
Investment grade	**7**	7	7
	1,026	1,006	1,039

Included in the AFS listed securities at 31 March 2013 are £0.8bn (March 2012: £0.1bn and September 2012: £0.8bn) investments in UK Government Gilts and £0.1bn (March 2012 £0.1bn and September 2012: £0.1bn) in other banks' debt securities.

The listed available for sale investments are classified as level 1 in the fair value hierarchy, with the unlisted AFS investments classified as level 3.

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:

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

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.

Risk concentration

Concentration of risk is managed by client / counterparty, by product, by geographical region and by industry sector. In addition single name exposure limits exist to limit exposure to a single entity / counterparty.

Eurozone risk

The Group has no material operations outside the UK and has no direct sovereign exposure to the peripheral Eurozone countries (Greece, Ireland, Italy, Portugal and Spain) (March 2012: £Nil and September 2012: £Nil). The Group had an exposure to the European Investment Bank of £100m at 31 March 2013 (March 2012: £100m and September 2012: £100m).

Notes to the interim condensed consolidated financial statements (continued)

21. Financial risk management (continued)

Credit risk (continued)

Industry concentration of assets

The following tables show the levels of industry concentration of the Group's assets:

Gross loans and advances to customers including loans designated at fair value through profit or loss	**31 Mar 2013 (unaudited) £m**	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited)* £m
Government and public authorities	**35**	37	39
Agriculture, forestry, fishing and mining	**1,785**	1,837	1,913
Financial, investment and insurance	**534**	976	886
Property – construction	**609**	4,103	3,722
Manufacturing	**776**	994	922
Instalment loans to individuals and other personal lending (including credit cards)	**2,093**	2,477	2,372
Property – mortgage	**15,687**	14,623	15,369
Asset and lease financing	**581**	813	694
Other commercial and industrial	**4,863**	7,673	7,303
	26,963	33,533	33,220

* 30 September 2012 includes £5,652m of assets classified as held for sale.

Available for sale and held to maturity investments	**31 Mar 2013 (unaudited) £m**	31 Mar 2012 (unaudited) £m	30 Sep 2012 (audited) £m
Financial, investment and insurance	**1,026**	1,006	1,039

21. Financial risk management (continued)

Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Group's balance sheet according to the assets and liabilities contractual maturity. 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.

The Group has disclosed certain term facilities with a revolving element at the maturity of the facility as this best reflects their contractual maturity.

31 March 2013 (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	5,888	-	-	-	-	1,226	7,114
Due from related entities	1,008	-	-	-	28	-	1,036
Due from other banks	-	23	165	-	-	-	188
Investments – available for sale	-	-	-	101	919	6	1,026
Other financial assets at fair value	-	39	173	926	1,388	-	2,526
Derivative financial assets	-	30	52	209	229	-	520
Loans and advances to customers	3,069	329	741	4,307	15,168	412	24,026
Due from customers on acceptances	-	5	-	-	-	-	5
All other assets	170	432	33	-	-	402	1,037
Total assets	**10,135**	**858**	**1,164**	**5,543**	**17,732**	**2,046**	**37,478**
Liabilities							
Due to other banks	-	350	75	-	-	-	425
Other financial liabilities at fair value	-	4	-	67	64	-	135
Derivative financial liabilities	-	30	74	150	469	2	725
Due to customers	16,153	2,640	3,529	2,838	-	-	25,160
Liabilities on acceptances	-	5	-	-	-	-	5
Due to related entities	161	143	-	1,301	1,077	-	2,682
Bonds, notes and subordinated debt	-	466	-	1,956	686	-	3,108
All other liabilities	1,728	463	51	-	-	328	2,570
Total liabilities	**18,042**	**4,101**	**3,729**	**6,312**	**2,296**	**330**	**34,810**

Notes to the interim condensed consolidated financial statements (continued)

21. Financial risk management (continued)

Maturity analysis of assets and liabilities (continued)

31 March 2012 (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	5,560	-	-	-	-	1,038	6,598
Due from related entities	1,063	-	348	-	-	-	1,411
Due from other banks	-	15	-	-	-	-	15
Investments – available for sale	-	-	-	100	900	6	1,006
Other financial assets at fair value	-	99	401	1,881	2,177	-	4,558
Derivative financial assets	-	129	253	267	167	-	816
Loans and advances to customers	4,609	685	1,228	6,077	15,145	452	28,196
Due from customers on acceptances	-	7	-	-	-	-	7
All other assets	152	421	32	-	-	385	990
Total assets	11,384	1,356	2,262	8,325	18,389	1,881	43,597
Liabilities							
Due to other banks	196	463	17	-	-	-	676
Other financial liabilities at fair value	-	-	-	74	79	-	153
Derivative financial liabilities	-	30	91	201	560	-	882
Due to customers	15,410	2,701	4,106	3,397	5	-	25,619
Liabilities on acceptances	-	7	-	-	-	-	7
Due to related entities	53	177	4,650	2,201	1,567	-	8,648
Bonds, notes and subordinated debt	-	622	707	1,102	-	-	2,431
All other liabilities	1,380	407	33	-	-	308	2,128
Total liabilities	17,039	4,407	9,604	6,975	2,211	308	40,544

30 September 2012 (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	6,800	-	-	-	-	1,123	7,923
Due from related entities	1,223	-	-	-	33	-	1,256
Due from other banks	-	14	-	-	-	-	14
Investments – available for sale	-	-	-	100	932	7	1,039
Other financial assets at fair value	1	45	165	1,006	1,574	-	2,791
Derivative financial assets	-	37	50	314	199	-	600
Loans and advances to customers	4,132	488	796	3,799	14,695	436	24,346
Due from customers on acceptances	-	7	-	-	-	-	7
All other assets	153	340	62	-	-	465	1,020
Assets held for sale	587	135	723	2,462	1,298	20	5,225
Total assets	12,896	1,066	1,796	7,681	18,731	2,051	44,221
Liabilities							
Due to other banks	-	521	36	-	-	-	557
Other financial liabilities at fair value	-	-	5	74	68	-	147
Derivative financial liabilities	7	87	51	236	571	-	952
Due to customers	15,599	3,527	3,453	3,802	-	-	26,381
Liabilities on acceptances	-	7	-	-	-	-	7
Due to related entities	595	26	4,350	1,006	1,550	-	7,527
Bonds, notes and subordinated debt	-	-	590	1,370	1,203	-	3,163
All other liabilities	1,641	436	40	-	-	624	2,741
Liabilities associated with assets held for sale	-	-	6	48	88	-	142
Total liabilities	17,842	4,604	8,531	6,536	3,480	624	41,617

Notes to the interim condensed consolidated financial statements (continued)

22. Capital management overview

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

The Group implemented Basel II requirements from 1 January 2008 in measuring operational and credit risks under the standardised approach. Under Pillar I of Basel II, the Group calculates its minimum capital requirements based on 8% of RWAs. The PRA then adjusts this requirement to cover risks under Pillar II of Basel II and generates an Individual Capital Guidance ("ICG") and a Capital Planning Buffer ("CPB"). The CPB is designed to be available to absorb losses and / or to cover increased capital requirements in adverse circumstances that are outside the Group's normal and direct control.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The UK ALCO, which consists of the Chief Executive Officer, Chief Operating Officer, the Chief Financial Officer and other senior executives, is responsible for the management of the capital process including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to senior management via UK ALCO and other governance committees. Capital requirements are included within an annual capital management plan which is presented to and approved by the Board of Directors.

23. Events after the balance sheet date

Subject to the normal regulatory processes, the Directors recommend the payment of an interim dividend on the Bank's redeemable preference shares in respect of the financial period of £14m.

Other information

Website	cbonline.co.uk
Media	Press office 0845 603 5447 press.office@nab.co.uk
National Australia Bank	NAB Group results are available from www.nabgroup.com.au