

# Report & Financial Statements 2005

Clydesdale Bank PLC

National Australia Group in the United Kingdom

# CLYDESDALE BANK PLC

## ANNUAL REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 2005

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**CLYDESDALE BANK PLC**  
**Officers and Professional Advisers**

**Directors**                      **Executive:**                      Lynne Peacock (Chief Executive Officer) #  
Gavin Slater #  
David Thorburn

**Non-executive:**                      Karl Daniels \*  
Sir David Fell \*  
Eugene Greene \*  
Richard Gregory OBE \* #  
Roy Nicolson #  
Malcolm Williamson (Chairman) #

\* Member of the European Board Audit Committee  
# Member of the European Board Risk Committee

**Secretary**    Myshele Shaw

**Registered Office**    30 St Vincent Place  
Glasgow G1 2HL

**Bankers**    National Australia Bank Limited

**Auditors**    Ernst & Young LLP  
Chartered Accountants  
Registered Auditor

# **CLYDESDALE BANK PLC**

## **Report of the Directors**

The Directors of Clydesdale Bank PLC (the "Bank") with its subsidiary undertakings (which together comprise the "Group") submit their report and consolidated Financial Statements for the year ended 30 September 2005.

### **Activities**

The Bank is an "authorised person" under the Financial Services and Markets Act 2000 and is regulated by The Financial Services Authority ("FSA").

The Bank and its subsidiaries offer access to a comprehensive range of banking and other related financial services through 425 branches in Scotland, England and the Isle of Man. Developments in the Group's existing business and future prospects are discussed below.

### **Profits and appropriations**

The profit attributable to the shareholders for the year ended 30 September 2005 amounted to £124,525,000 (2004 £191,440,000). Interim dividends totalling £nil (2004 £114,000,000) were paid during the year. The Directors do not recommend the payment of a final dividend in respect of this financial year (2004 £nil).

### **Review of developments**

The Group is the United Kingdom ("UK") retailing arm of the National Australia Bank Limited ("NAB") that provides financial solutions to its 2.45 million customers in the UK. At 30 September 2005, the Group had 5,999 full-time equivalent employees.

The Group completed the legal entity merger in December 2004 of Clydesdale Bank PLC and Yorkshire Bank PLC in order to reduce associated corporate and support infrastructure costs. Following this the Group's retail activities in the UK operate under two brands - Clydesdale 'Bank' in Scotland and the South of England, and Yorkshire 'Bank' in the North of England and the Midlands.

Clydesdale Bank was established in 1838 in Glasgow and has a long history of support for Scottish industries and communities. With 203 branches at 30 September 2005 Clydesdale Bank is one of Scotland's largest retail banks, as well as one of the country's leading business banks.

Yorkshire Bank was founded in 1859 in Halifax, West Yorkshire, and today maintains a strong regional focus in the North of England and the Midlands. Yorkshire Bank has a strong personal customer base and business capability. Yorkshire Bank had 222 branches at 30 September 2005.

Each bank offers a broad range of financial products and services to both retail and business customers. Complementing this are the products and services provided by the NAB UK Wealth Management and Institutional Markets & Services teams, offering customers a further range of financial solutions.

At 30 September 2005, the Group's UK distribution network comprised 425 branches and 78 financial solutions, supported by two customer contact centres, internet banking, telephone banking and 923 ATMs.

On 30 March 2005, the Group announced a provision of £102 million to cover costs of restructuring initiatives including the streamlining of operations, reductions in staffing levels and the reconfiguration of the distribution networks. The restructuring will lead to a total reduction of approximately 1,600 positions across the UK over a 2 year period, together with the closure of approximately 60 Clydesdale Bank branches and 40 Yorkshire Bank branches. This decision reflected the changing needs of our customers and the different ways in which they are banking. Other initiatives that resulted from the review included:

- the re-alignment of the Group's high street branch presence to reflect changing customer usage and needs. This included the establishment of 'flagship' branches in key centres, which will also offer banking services to the micro-business segment. By 30 September 2005, 57 of these flagship branches were opened;
- investment to upgrade the internet banking platform with migration to the new platform commencing in late 2005;
- investment to upgrade ATM software as well as continued expansion of the ATM network which has seen over 50 ATMs added;
- upgraded telephone banking services with a drive to complete call sweeping for all branches; and
- the provision of account access at any of the UK's 14,000 post offices for Clydesdale Bank brand customers.

## **CLYDESDALE BANK PLC**

### **Report of the Directors (continued)**

#### **Review of developments (continued)**

During the year, the Financial Solutions Centre concept was extended into Scotland and the North of England and, at 30 September 2005, we had opened 23 new centres across the United Kingdom. Financial Solutions Centres offer integrated business and premium banking services to small-medium sized business customers.

Expansion into the mortgage intermediary market continued with the marketing of Clydesdale Bank branded mortgage products through third party distributors. More than 300 relationships have been established with some of the UK's leading brokers.

Work continued to improve productivity and the standardisation of processes and business operating models.

Further advances in the rationalisation and enhancement of products to a single product set supporting multiple brands and distribution channels were made, with the release of a new current account and an offset mortgage product. Another area of focus is the rationalisation of suppliers to deliver enhanced purchasing power.

Attention has also been directed to further develop talent and the quality of leadership. Several initiatives, such as the introduction of long service awards and more flexible working conditions, were introduced to attract and retain quality staff, particularly locally recruited managers.

During the year three major sponsorships were launched - the Clydesdale Bank sponsorship of the Scottish Commonwealth Games team, the Yorkshire Bank sponsorship of Opera North, and the sponsorship of the Twenty20 Cup cricket.

Customer service metrics show customer satisfaction continues to improve with a 3% improvement driven by ongoing service initiatives.

#### **Directors and Directors' interests**

The current Directors are shown on page 2. Directors who are not full-time employees of the Bank or a related body corporate are appointed in accordance with the Articles of Association and may be eligible for reappointment thereafter. The Director that was reappointed during the financial year was Richard Gregory OBE.

#### Appointments

Gavin Slater was appointed as a Director of the Bank on 14 March 2005.

Eugene Greene was appointed as a Non-Executive Director of the Bank on 23 August 2005.

#### Resignations

Ross Pinney resigned as a Director of the Bank on 26 November 2004.

#### Directors interests

No Director had any interest in the shares of the Bank or its subsidiaries at any time during the year. As the Bank is a wholly-owned subsidiary of National Australia Bank Limited ("NAB"), which is incorporated in Australia, any interest which the Directors may have in NAB does not need to be notified to the Bank, so is not disclosed in this report.

#### **Employee involvement**

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

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

Under the UK National Share Incentive Plan, the National EVA ® Share Offer did not gift ordinary shares to eligible employees based on Group performance during 2003 - 2004. However, a Mid Year Share Offer gifting of ordinary shares of A\$500 was made in September 2005, based on performance in the half year to 31 March 2005. Participants are entitled to receive dividends and exercise voting rights whilst they are members of the plan.

## **CLYDESDALE BANK PLC**

### **Report of the Directors (continued)**

#### **Employment of disabled persons**

It is the policy of the Group to promote equality of employment opportunities by giving full and fair consideration to applications from disabled people. If existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

#### **Charitable and political donations**

The total amount given for charitable purposes by the Group during the year ended 30 September 2005 was £358,000 (2004 £240,000). No political donations were made during the year (2004 £Nil).

#### **Corporate governance**

It is the Bank's policy not to include all of the disclosures in respect of voluntary corporate governance Codes of Practice as it is a wholly owned subsidiary of NAB. The NAB Group's Annual Financial Report detail the Corporate Governance framework applicable to the Bank and its subsidiaries. These disclosures are made after consideration of authoritative pronouncements on audit committees and associated disclosures in Australia, the USA, and the United Kingdom.

#### **Accounting developments**

In July 2002, the Financial Reporting Council in Australia formally announced that Australian reporting entities would be required to comply with Australian accounting standards equivalent to International Financial Reporting Standards and other pronouncements set by the International Accounting Standards Board ("IASB") for financial years commencing on or after 1 January 2005.

Thus, the ultimate parent company NAB will be required to adopt these standards for the financial year commencing 1 October 2005 and the adoption of the standards will be first reflected in NAB Group's financial statements for the half year ending 31 March 2006. In addition comparative financial information prepared in compliance with International Financial Reporting Standards ("IFRS") will be required for the year commencing 1 October 2004 for disclosure in the financial statements for the year to 30 September 2006.

As a result of this NAB Group requirement the Group will be adopting IFRS in accordance with the timelines above, including full adoption of IAS 32 and IAS 39 with effect from 1 October 2005. The adoption of these standards will have a material effect on the Group's reported financial performance and financial position. The summary below outlines the key differences for the Group.

**Pensions** - the measurement principles under IFRS are similar to those currently disclosed under FRS17. IFRS requires that any asset or liability in respect of defined benefit pension schemes be recognised on the balance sheet and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

**Loan impairment** - under IFRS, the Group will recognise loan impairment (currently referred to as provision for doubtful debts) when objective evidence is available that a loss event has occurred and as a consequence the Group is unlikely to receive all amounts owing to it. Loan impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment must be assessed individually for financial assets that are considered individually significant, and may be assessed collectively for financial assets that are not individually significant. Under UK GAAP, provisions for doubtful debts are made so as to record impaired loans at their expected net realisable value.

**Effective interest rate and lending fees** - under UK GAAP, loan origination fees are either recognised when received or deferred in the balance sheet and amortised as an adjustment to yield over the expected life of the loan. IFRS requires fees to be amortised using the effective interest rate on the related financial asset. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument.

**Derivative financial instruments and hedging** - under IFRS, the Group will be required to recognise all derivative financial instruments at fair value on the balance sheet. Where cash flow hedge accounting criteria are met, the carrying value of the hedged item is not adjusted. The fair value changes on the related hedging instrument are deferred in a separate equity reserve (to the extent the hedge is effective) and transferred to the profit & loss account at the time the hedged item affects the profit & loss account. Hedge ineffectiveness is recognised in the profit & loss account immediately.

**CLYDESDALE BANK PLC**  
**Report of the Directors (continued)**

**Accounting developments (continued)**

Financial instruments designated at fair value through profit and loss - IFRS allows financial assets to be designated at fair value through profit or loss on initial recognition or on the date of transition to IFRS. Once a financial instrument has been designated at fair value it is not possible to subsequently change the designation. The Group intends to designate certain individually hedged customer loans at fair value through profit and loss on transition to IFRS. These loans and the derivative financial instruments which hedge them are accrual accounted under UK GAAP. Designating the loans at fair value will minimise future volatility within the profit and loss account as movement caused by interest rate fluctuations will be largely offset by an equal and opposite movement in the derivative financial instruments.

**Auditors**

During the year Ernst & Young LLP were appointed as auditors of the Group. A resolution to reappoint Ernst & Young LLP, and to authorise the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

By order of the Board

Myshele Shaw  
Secretary  
28 October 2005

## **CLYDESDALE BANK PLC**

### **Statement of Directors' Responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the Financial Statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## **CLYDESDALE BANK PLC**

### **Report of the Independent Auditors to the members of Clydesdale Bank PLC**

We have audited the Group's Financial Statements for the year ended 30 September 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Balance Sheet of the Bank, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 39. These Financial Statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Directors and Auditors**

As described in the Statement of Directors' Responsibilities the Bank's Directors are responsible for the preparation of the Financial Statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom law and Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Financial Statements, if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

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

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

#### **Opinion**

In our opinion, the Financial Statements give a true and fair view of the state of affairs of the Bank and the Group as at 30 September 2005 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London

28 October 2005

**CLYDESDALE BANK PLC**  
**Consolidated Profit and Loss Account**  
**for the year ended 30 September 2005**

		2005	As restated 2004
	Note	£'000	£'000
Interest receivable and similar income		1,177,253	1,059,310
Interest payable		(539,583)	(392,645)
<b>Net interest income</b>		<b>637,670</b>	<b>666,665</b>
Fees and commissions receivable		263,918	260,066
Fees and commissions payable		(9,150)	(8,070)
Other operating income		44,328	43,281
<b>Non interest income</b>		<b>299,096</b>	<b>295,277</b>
<b>Operating income</b>		<b>936,766</b>	<b>961,942</b>
Administrative expenses	3	(565,339)	(552,589)
Depreciation	4	(19,778)	(20,034)
<b>Operating expenses</b>		<b>(585,117)</b>	<b>(572,623)</b>
<b>Group operating profit before provisions</b>		<b>351,649</b>	<b>389,319</b>
Provisions for bad and doubtful debts	13	(85,775)	(104,571)
<b>Group operating profit</b>		<b>265,874</b>	<b>284,748</b>
Profit on sale of land and buildings		20,891	-
Reorganisation costs	26	(101,695)	-
Share of operating profit in associated undertaking		120	40
<b>Profit on ordinary activities before tax</b>	4	<b>185,190</b>	<b>284,788</b>
Tax on profit on ordinary activities	7	(60,665)	(93,348)
<b>Profit for the financial year attributable to the shareholders</b>		<b>124,525</b>	<b>191,440</b>
Dividends	9	-	(114,000)
<b>Retained profit for the financial year</b>	29	<b>124,525</b>	<b>77,440</b>

All material items dealt with in arriving at the profit on ordinary activities before tax for 2005 and 2004 relate to continuing activities.

**CLYDESDALE BANK PLC****Consolidated Statement of Total Recognised Gains and Losses  
for the year ended 30 September 2005**

	<b>2005</b>	As restated
	<b>£'000</b>	2004 £'000
Profit for the financial year attributable to the shareholders	<b>124,525</b>	191,440
Increase in revaluation reserve	<b>601</b>	7,742
<b>Total recognised gains and losses for the year</b>	<b><u>125,126</u></b>	<u>199,182</u>

The profit for the financial year attributable to the shareholders and total recognised gains and losses for the year includes £98,000 (2004 £31,000) in respect of the Group's share of the total recognised gains and losses of its associated undertaking.

**Consolidated Note of Historical Cost Profits and Losses  
for the year ended 30 September 2005**

	<b>2005</b>	As restated
	<b>£'000</b>	2004 £'000
Profit on ordinary activities before tax	<b>185,190</b>	284,788
Realisation of property revaluation gains of prior years	<b>473</b>	508
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<b>939</b>	(1,120)
<b>Historical cost profit before taxation</b>	<b><u>186,602</u></b>	<u>284,176</u>
<b>Historical cost retained profit for the year</b>	<b><u>125,937</u></b>	<u>76,828</u>

**Reconciliation of Movements in Shareholders' Funds  
for the year ended 30 September 2005**

	<b>Group</b>		<b>Bank</b>	
	<b>2005</b>	As restated	<b>2005</b>	As restated
	<b>£'000</b>	2004 £'000	<b>£'000</b>	2004 £'000
Profit for the financial year attributable to the shareholders	<b>124,525</b>	191,440	<b>139,582</b>	146,767
Dividends	-	(114,000)	-	(114,000)
Retained profit for the year	<b>124,525</b>	77,440	<b>139,582</b>	32,767
Increase in revaluation reserve	<b>601</b>	7,742	<b>601</b>	7,742
Net increase in shareholders' funds	<b>125,126</b>	85,182	<b>140,183</b>	40,509
Opening shareholders' funds	<b>1,236,068</b>	1,150,886	<b>1,150,604</b>	1,110,095
<b>Closing shareholders' funds</b>	<b><u>1,361,194</u></b>	<u>1,236,068</u>	<b><u>1,290,787</u></b>	<u>1,150,604</u>

**CLYDESDALE BANK PLC**  
**Consolidated Balance Sheet at 30 September 2005**

	Note	2005 £'000	As restated 2004 £'000
<b>Assets</b>			
Cash and balances at central bank		1,085,282	127,129
Items in the course of collection from other banks		287,125	232,594
Loans and advances to banks	10	788,167	1,412,078
Loans and advances to customers	11	19,304,414	16,189,498
Debt securities	14	538	250,538
Equity shares	15	788	788
Interest in associated undertaking	16	2,147	2,049
Operating lease assets	18	178,684	180,880
Tangible fixed assets	19	192,471	187,161
Other assets	20	192,776	147,697
Deferred taxation	21	48,814	42,112
Prepayments and accrued income		211,940	176,309
<b>Total assets</b>	37	<b>22,293,146</b>	<b>18,948,833</b>
<b>Liabilities</b>			
Deposits by banks	22	3,468,433	3,619,696
Items in the course of transmission to other banks		72,167	67,021
Customer accounts	23	13,690,281	12,044,574
Debt securities in issue	24	1,342,201	3,000
Notes in circulation		962,039	823,890
Other liabilities	25	583,028	469,604
Accruals and deferred income		140,108	119,036
Provisions for liabilities and charges	26	101,695	43,944
Subordinated liabilities - undated loan capital	27	572,000	522,000
		20,931,952	17,712,765
<b>Shareholders' funds</b>			
Called up share capital	28	204,785	204,785
Share premium account	29	45,215	45,215
Revaluation reserve	29	19,455	19,327
Merger reserve	29	337,500	337,500
Profit and loss account	29	754,239	629,241
<b>Total shareholders' funds</b>		<b>1,361,194</b>	<b>1,236,068</b>
<b>Total liabilities and shareholders' funds</b>	37	<b>22,293,146</b>	<b>18,948,833</b>
<b>Memorandum items</b>			
Contingent liabilities			
- acceptances and endorsements		6,550	23,080
- guarantees and assets pledged as collateral security		516,249	523,336
- other contingent liabilities		13,119	460
	30	535,918	546,876
Commitments	30	10,694,200	8,206,909

These Financial Statements were approved by the Board of Directors on 28 October 2005 and were signed on its behalf by:

**Malcolm Williamson**  
Chairman

**Lynne Peacock**  
Chief Executive Officer

**CLYDESDALE BANK PLC****Balance Sheet of the Bank at 30 September 2005**

	Note	2005 £'000	As restated 2004 £'000
<b>Assets</b>			
Cash and balances at central bank		1,085,280	127,127
Items in the course of collection from other banks		287,125	232,594
Loans and advances to banks	10	788,167	1,412,078
Loans and advances to customers	11	19,382,267	16,266,760
Debt securities	14	538	250,538
Equity shares	15	788	788
Interest in associated undertaking	16	42	42
Investment in subsidiaries	17	32,751	183,383
Tangible fixed assets	19	192,471	187,161
Other assets	20	191,670	141,220
Deferred taxation	21	73,029	54,300
Prepayments and accrued income		216,090	180,571
<b>Total assets</b>	37	<b>22,250,218</b>	<b>19,036,562</b>
<b>Liabilities</b>			
Deposits by banks	22	3,468,433	3,619,696
Items in the course of transmission to other banks		72,167	67,021
Customer accounts	23	13,744,389	12,247,563
Debt securities in issue	24	1,342,201	3,000
Notes in circulation		962,039	823,890
Other liabilities	25	557,858	452,344
Accruals and deferred income		138,649	106,500
Provisions for liabilities and charges	26	101,695	43,944
Subordinated liabilities - undated loan capital	27	572,000	522,000
		<b>20,959,431</b>	<b>17,885,958</b>
<b>Shareholders' funds</b>			
Called up share capital	28	204,785	204,785
Share premium account	29	45,215	45,215
Revaluation reserve	29	19,453	19,325
Merger reserve	29	337,500	337,500
Profit and loss account	29	683,834	543,779
<b>Total shareholders' funds</b>		<b>1,290,787</b>	<b>1,150,604</b>
<b>Total liabilities and shareholders' funds</b>	37	<b>22,250,218</b>	<b>19,036,562</b>
<b>Memorandum items</b>			
Contingent liabilities			
- acceptances and endorsements		6,550	23,080
- guarantees and assets pledged as collateral security		516,249	523,336
- other contingent liabilities		13,119	460
	30	<b>535,918</b>	<b>546,876</b>
Commitments	30	<b>10,694,200</b>	<b>8,206,909</b>

These Financial Statements were approved by the Board of Directors on 28 October 2005 and were signed on its behalf by:

**Malcolm Williamson**  
Chairman

**Lynne Peacock**  
Chief Executive Officer

# **CLYDESDALE BANK PLC**

## **Notes to the Financial Statements**

### **1. Accounting policies**

In these Financial Statements Clydesdale Bank PLC is referred to as the “Bank” and the “Group” consists of the Bank and its subsidiary undertakings. The principal subsidiary undertakings are listed in Note 17. The consolidated Financial Statements comprise the Financial Statements of the Group.

The Financial Statements of the Group have been prepared under the historical cost convention in accordance with the special provisions of Part VII, Chapter II of the Companies Act 1985 (the “Act”) relating to banking groups, modified by the revaluation of certain fixed assets. They have been prepared in accordance with applicable Accounting Standards, pronouncements of the Urgent Issues Task Force and applicable accounting Statements of Recommended Practice, being those issued by the British Bankers' Association and the Finance and Leasing Association. The format of the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Balance Sheet and Notes to the Financial Statements is as prescribed by the amended Schedule 9 to the Act. The format of the Financial Statements of the Bank complies with Schedule 4 to the Act.

As permitted by section 230 of the Act, no profit and loss account is presented for the Bank.

In accordance with FRS 1 "Cash Flow Statements (Revised 1996)", no cash flow statement is presented as the Group is a wholly owned subsidiary of NAB which presents such a statement in its own published consolidated Financial Statements in which the Group's are consolidated.

The accounting policies used in the preparation of these Financial Statements are consistent with previous years.

#### **Currency of presentation**

All amounts are expressed in pounds sterling and all references to £ are to pounds sterling unless otherwise stated.

#### **Principles of consolidation**

All undertakings which are controlled by the Bank are included in the consolidated Financial Statements. Control means the ability or power of the Bank to dominate decision making directly or indirectly in relation to the financial and operating policies of another undertaking, to enable that other undertaking to operate with it in pursuing its objectives.

All intercompany balances, transactions and profits are eliminated on consolidation. Subsidiary undertakings prepare financial statements for consolidation in conformity with the Bank's accounting policies.

Where subsidiary undertakings have been acquired or sold during the year, their operating results have been included from the date of acquisition or to the date of sale.

As disclosed in Note 17 on 1 December 2004 the entire business and undertaking of Yorkshire Bank PLC was transferred to Clydesdale Bank PLC. As both entities were under common ownership, FRS 6 states that this transfer can be classified as a Group reconstruction and thus it has been accounted for by the use of merger accounting. The transfer has been given the effective date of 1 October 2004 and thus Clydesdale Bank PLC will be treated as having acquired the assets, liabilities and reserves of Yorkshire Bank PLC with effect from that date. As no consideration was paid in relation to the transfer the only impact arising is the crystallisation of the Yorkshire Bank PLC Share Capital and Share Premium into a Merger Reserve in the combined entity. Prior year comparatives have also been restated by including the results and balance sheets for the combining entities adjusted as necessary to achieve uniformity of accounting policies.

Associates are undertakings over which the Bank exerts significant influence but does not exercise control. Equity accounting for associates is adopted. The attributable share of profit and reserves of the associated undertaking is based on the management accounts as at 30 September 2005.

#### **Foreign currency translation**

All foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Gains and losses arising from these retranslations are recognised immediately in the profit and loss account. All Group foreign currency income and expense amounts are translated at average rates of exchange for the year.

# **CLYDESDALE BANK PLC**

## **Notes to the Financial Statements (continued)**

### **1. Accounting policies (continued)**

#### **Loans and advances**

Loans and advances include overdrafts, credit card lending, market rate advances, bill financing, housing loans, lease finance and term lending. They are carried at recoverable amounts represented by the gross value of the outstanding balances adjusted for provisions for doubtful debts.

#### **Bad and doubtful debts**

Provisions for doubtful debts provide for losses inherent in loans and advances.

The specific provision for doubtful debts is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement ("an impaired loan"). Amounts provided for are determined by specific identification or by management's determination of probable losses for individual loans that are considered impaired in relation to loan portfolios where specific identification is impracticable. For larger-balance loans that have been individually determined to be impaired, the level of specific provision required is based on an assessment of the recoverability of each loan. This takes into account available evidence on the collateral and other objective and subjective factors that may impact the collectability of the outstanding loan principal and interest. Management judgement is required in determining the valuation of the loan collateral. Independent valuations are frequently obtained by management to provide expert advice. Each portfolio of smaller-balance loans is collectively evaluated for impairment. Management considers overall portfolio indicators, including historical credit losses and delinquency rates, in determining the level of specific provision required for each portfolio. The Group considers the assumptions used in the calculation of the specific provisions to be reasonable and supportable in the existing economic environment. All bad debts are written off against the specific provision for doubtful debts in the reporting period in which they are classified as irrecoverable.

The Group has adopted a statistically-based provisioning methodology for its general provision for doubtful debts. Under the methodology, the Group estimates the level of losses inherent but not specifically identified in its existing credit portfolios at balance date. The statistical provisioning methodology is applied to existing credit portfolios, including loans and advances drawn down during the year.

For retail lending (smaller-balance homogeneous loans), the general provision is assessed at a portfolio level and is based on product loss rates, to make a provision for losses inherent in the portfolio but not yet identified at balance date. These rates are determined by reference to observed historical loss experience for the relevant product types.

In respect of non-retail lending, the amount of the general provision is determined by multiplying the customer's probability of default by the loss given default. The probability of default is determined by the Group's internal customer rating system. Internal ratings are assigned at the customer level. This system utilises objective, verifiable external data, such as external credit ratings, conducted by the Group's discrete specialist economics unit. The loss given default is the amount of an individual loan at risk having regard to the level of collateral held against that facility. The level of collateral held is determined on a loan-by-loan basis, based on the Group's assessment of the loan's security value at the time of loan application and any subsequent valuations.

A change in management's assessment of the predetermined parameters or outlook assumptions would be likely to result in a change to the Group's general provision for doubtful debts. To mitigate the risk of uncertainty and validate assumptions, the Group regularly reviews the parameters, key inputs and assumptions. In addition, the Group undertakes periodic sensitivity analysis to assess the impact of deterioration in credit risk on the credit portfolio. The Group considers the assumptions used in the calculation of the general provision for doubtful debts to be reasonable and supportable in the existing economic environment.

The operation of the statistically-based provisioning methodology is such that when individual loans are impaired, specific provisions will be raised partly by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of credit exposures applying the above methodology.

# **CLYDESDALE BANK PLC**

## **Notes to the Financial Statements (continued)**

### **1. Accounting policies (continued)**

#### **Asset quality**

A loan is considered to be impaired when, based on current information and events, the Group considers it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The Group has disclosed certain components of its loan portfolios as impaired assets according to the classifications discussed below. Non accrual loans consist of:

- non-retail loans which are contractually past due and there is sufficient doubt about the ultimate recoverability of principal and interest to warrant the cessation of interest accruals; and
- impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

#### **Income recognition on non accrual loans**

When a loan is classified as non accrual, income ceases to be recognised in the profit and loss account on an accruals basis as reasonable doubt exists as to the collectability of interest and principal. Interest charged on non accrual loans in the current period is reversed against income.

Cash receipts in relation to non accrual loans are recognised as interest income to the extent that the cash receipts represent unaccrued interest except where there is a contrary agreement with the borrower, or the receipts relate to proceeds from the sale of security, or are scheduled principal repayments.

#### **Leasing and hire purchase contracts**

Finance leases, in which the Group is the lessor, and hire purchase contracts are included in loans and advances to customers and are accounted for using the finance method, whereby income determined on an actuarial basis is taken to the profit and loss account over the term of the lease in proportion to the outstanding investment balance. Where the Group is a lessee, leased assets are capitalised and the corresponding liability is recognised in other liabilities.

Lease rentals receivable and payable on operating leases are recognised in the profit and loss account in equal periodic amounts over the effective lease term.

#### **Debt securities**

Debt securities consist of investment and other securities.

Investment securities are public and other investment securities which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums and discounts to maturity, and other than temporary diminutions in their value. Losses relating to other than temporary diminutions in the value of investment securities are recognised in the profit and loss account and the recorded values of those securities adjusted accordingly. The sale of an investment security would only be considered in those unusual and rare situations when significant unforeseeable changes in circumstance may have caused a change in intent without calling into question the Group's intent and ability to hold other investment securities to maturity in the future (for example, evidence of a significant deterioration in a security and issuer's creditworthiness). In those unusual and rare instances where investment securities are sold prior to maturity, profits and losses on sale are taken to the profit and loss account when realised.

Other securities are public and other debt securities which are purchased for current resale in day to day trading operations. Other securities are recorded at fair value and gains or losses in respect of fair value adjustments are recognised immediately in the profit and loss account.

The fair value of other securities represents the quoted market value of those securities.

Investment securities are recorded on a trade date basis.

For the purpose of determining market value, listed investments are valued at bid prices and unlisted investments at Directors' valuation.

# **CLYDESDALE BANK PLC**

## **Notes to the Financial Statements (continued)**

### **1. Accounting policies (continued)**

#### **Equity shares**

Equity shares consist of investment securities which are held for the long term and recorded at original cost less any provision for impairment in value.

For the purpose of determining market value, unlisted investments are valued at Directors' valuation.

#### **Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase are retained within the investment or other securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the profit and loss account over the term of the repurchase agreement. The consideration paid for securities held under reverse repurchase agreements is recorded in loans and advances. The difference between the purchase and sale price represents interest income and is recognised in the profit and loss account over the term of the reverse repurchase agreement.

#### **Shares in subsidiary undertakings**

Shares in subsidiary undertakings are stated at original cost less any necessary provision for impairment. Losses relating to the impairment in the value of shares in subsidiary undertakings are recognised in the profit and loss account.

#### **Tangible fixed assets**

All freehold and long-term leasehold land and buildings are revalued annually on an existing use basis by the Directors to reflect current market values, based on advice received from independent valuers. In addition full independent valuations are carried out on a three year cycle on an existing use basis, including directly attributable acquisition costs but without deducting expected selling costs. For properties that are vacant or let to third parties valuations are carried out on an open market basis. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations written off to the profit and loss account in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve.

All other tangible fixed assets are carried at the lower of cost, less accumulated depreciation, and recoverable amount. If the carrying amount of a tangible fixed asset exceeds its recoverable amount, the asset is written down to the lower value.

With the exception of land, all tangible fixed assets are depreciated using the straight-line method, at rates appropriate to their estimated useful lives to the Group, taking into account any residual value. Buildings and leasehold properties with more than thirty years unexpired, are depreciated over thirty years. Leasehold properties with less than thirty years unexpired are depreciated over ten years or the period of the lease, whichever is the shorter. Motor vehicles, fixtures and equipment are depreciated over their estimated useful lives, which range from three to ten years. Residual values are determined on the dates of acquisition and revaluation of assets and are based on estimated realisable values, net of any realisation costs.

#### **Provisions**

Provision for restructuring costs includes provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that it has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. Provisions for restructuring are only recognised when a detailed plan has been approved and the reorganisation has either commenced or been announced. This includes the cost of staff termination benefits and surplus leased space. Costs related to ongoing activities are not provided for.

Surplus leased space is an onerous contract and a provision is recognised when the expected benefits to be derived from the contract are less than the costs that are unavoidable under the contract. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, are being sub-leased for lower rentals than the Group pays, or there are no substantive benefits beyond a known future date. The provision is determined on the basis of the present value of net estimated future cash flows.

# **CLYDESDALE BANK PLC**

## **Notes to the Financial Statements (continued)**

### **1. Accounting policies (continued)**

#### **Derivative financial instruments held or issued for purposes other than trading**

The principal objective of using derivative financial instruments for purposes other than trading is to protect the level of net interest income, while maintaining acceptable levels of interest rate, credit and liquidity risk, and to facilitate the funding needs of the Group. To achieve this objective, a combination of derivatives including swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. The timing of the impact of hedging derivatives on the profit and loss account is consistent with the timing of the impact of the hedged items on the profit and loss account.

The net income or expense on derivatives used to manage interest rate exposures is recorded in net interest income on an accruals basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within other assets or other liabilities and amortised to net interest income over the remaining period originally covered by the terminated contract. If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is recognised immediately in other operating income.

Accrued gains or losses on derivatives used to hedge exposures arising from anticipated future transactions, are deferred within other assets or other liabilities until such time as the accounting impact of the anticipated transaction is recognised in the Financial Statements. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in other operating income.

Interest receivable and payable for interest rate swaps with the same counterparty are reported on a net basis as prepayments and accrued income or accruals and deferred income where a legal right of set-off exists.

#### **Recognition of fee income including loan related fees and costs**

Interest income is reflected in the profit and loss account when earned on an accruals basis. Dividend income is recorded in the profit and loss account on an accruals basis when the Group obtains control of the right to receive the dividend.

When fees and commissions relate to specific transactions or events, they are recognised as income in the period that the services are provided. When they are charged for services provided over a period, they are recognised as income on an accruals basis.

Loan origination fees, if material, are recognised in income over the life of the loan as an adjustment of yield. Direct loan origination costs, if material, are netted against the loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Application and activation lending fees received are recognised as income no later than when the loan is disbursed or the commitment to lend expires. Recurring management fees received are taken to the profit and loss account on an accruals basis. Credit card fees are taken to the profit and loss account when charged to the customer.

Incentives given in respect of mortgages and other loans, if material, are deferred and recognised over a period. The period used is the shorter of the term over which they can be recovered from the customer in the event of early termination or the period for which the incentive is given.

## **CLYDESDALE BANK PLC**

### **Notes to the Financial Statements (continued)**

#### **1. Accounting policies (continued)**

##### **Pension and post retirement costs**

Contributions to the Group's defined benefit pension scheme are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives. Pension arrangements cover a majority of employees and are operated through a defined benefit scheme funded by the Bank and its subsidiary undertakings. The pension cost relating to this scheme is assessed in accordance with the advice of qualified actuaries, on the basis of triennial valuations, using the projected unit method. Variations from the regular cost are allocated on a straight line basis over the average remaining service lives of current employees. Where an excess of assets so allocated is greater than the regular cost of accruing benefits, the effect of the excess assets in the scheme is limited, on the grounds of prudence, to an amount equal to the regular cost.

The Group recognises the cost of providing post retirement health care benefits in the profit and loss account, over the period of service during which employees become entitled to those benefits. Costs are estimated by projecting past claims experience, and are measured at present values by discounting future cash flows.

The expense recognised in the profit and loss account in relation to the defined contribution scheme represents the contributions payable to this scheme.

##### **Taxation**

The Group provides for taxation using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for on an undiscounted basis at expected tax rates on all timing differences which occur where items are tax-effected in a period different from that in which they are recognised in the Financial Statements, except as otherwise required by FRS 19 "Deferred Tax". Deferred tax assets are only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the timing differences and tax losses can be deducted.

Chargeable gains are provided for in determining the tax charge for the period if there is a binding agreement to dispose of an asset as at the balance sheet date.

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**2. Nature of business and segmental reporting**

The assets, liabilities and results of the Bank and Group are derived from the business of banking and other related financial services in the United Kingdom.

**3. Administrative expenses**

	<b>2005</b>	As restated 2004
	<b>£'000</b>	£'000
Staff costs		
- wages and salaries	<b>133,174</b>	135,021
- social security costs	<b>12,564</b>	10,518
- pension costs	<b>23,135</b>	29,767
	<b>168,873</b>	175,306
Administrative expenses		
-other	<b>139,531</b>	143,572
-recharges from parent and fellow subsidiary undertakings	<b>256,935</b>	220,209
-recharge of software impairment write-down from a fellow subsidiary undertaking	<b>-</b>	13,502
	<b>565,339</b>	552,589

**4. Profit on ordinary activities before tax**

	<b>2005</b>	As restated 2004
	<b>£'000</b>	£'000
This is stated after:		
<b>Income</b>		
Aggregate amounts receivable, including capital repayments, (net of depreciation of £733,540,000 (2004 £722,119,000)) under:		
- finance leases and hire purchase contracts	<b>63,574</b>	72,639
- operating leases	<b>7,287</b>	6,148
- profit on disposal of tangible fixed assets	<b>287</b>	351
<b>Charges</b>		
Depreciation of tangible fixed assets (Note 19)	<b>19,778</b>	20,034
Charges incurred with respect to subordinated liabilities	<b>18,162</b>	27,089
Hire of computers and equipment	<b>34</b>	13
Rental of premises held under operating leases	<b>25,470</b>	22,013
- loss on disposal of tangible fixed assets	<b>49</b>	132
Auditors' remuneration (including irrecoverable VAT)		
<b>Audit</b>		
Audit services		
- Bank	<b>487</b>	419
- Subsidiary undertakings	<b>-</b>	66
- Further assurance services	<b>-</b>	5
Non audit services	<b>275</b>	-
	<b>762</b>	490

The Bank is a wholly owned subsidiary of National Australia Bank Limited, which is required to comply with Australian Corporations Act 2001 and the Australian Securities and Investments Commission's Class Orders 98/2000 and 00/0319 pertaining to external audit indebtedness. The Bank complies with the requirements of Class Order 98/2000 and 00/0319 in that no member of Ernst & Young Australia is indebted to the Bank unless such indebtedness is permitted under the terms of either of these class orders.

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**5. Directors' emoluments**

	<b>2005</b>	As restated
	<b>£'000</b>	2004
		£'000
Aggregate emoluments	<u><b>1,700</b></u>	<u>1,199</u>

No directors (2004 nil) exercised share options in the year and three directors (2004 five) became entitled to receive shares under long-term incentive schemes operated by the Bank's ultimate parent undertaking. No directors (2004 nil) accrued retirement benefits under a money purchase pension scheme.

The aggregate emoluments of the highest paid Director in respect of those duties relevant to the Bank were £693,137 (2004 £267,791). The Bank pension contributions amounted to £nil (2004 £nil). The director exercised no share options in the year (2004 nil) and was entitled to receive shares under the long term incentive scheme.

No directors (2004 six) who left office during the year were entitled, in terms of their contracts, to receive a payment in relation to their retirement. The payments totalled £nil (2004 £874,368).

**6. Pension scheme**

Following the transfer of the entire business and undertaking of Yorkshire Bank PLC, the Group is a participating employer in 2 pension schemes (the "Schemes"), the assets of which are held in separate trustee administered funds. With the exception of a defined contribution scheme created last year, the schemes are funded defined benefit schemes.

Actuarial valuations of the assets (using market values) and liabilities (using the projected unit method) of each scheme are carried out triennially, and updated annually, by qualified actuaries, to determine the financial position of the Schemes to enable the Group to establish the level of contributions to be made to the Schemes. The two major schemes in which the Group participates are the Clydesdale Bank (CB) Pension Fund and the Yorkshire Bank (YB) Pension Fund. The latest formal actuarial valuation of these schemes was carried out at 30 September 2004.

The principal actuarial assumptions adopted by the scheme following the actuarial valuation were:

	<b>% p.a</b>
Long term investment returns	
- new investments	6.40
- existing investments	6.40
Increase in pensionable remuneration	3.80
Post-retirement pension increases	2.80
Price inflation	2.80

The market value of the CB Pension Scheme and the YB Pension Scheme at the date of the formal valuation were £627 million and £590 million respectively. The actuarial value of the assets were sufficient to cover 88.5% and 99.5% of the benefits that had accrued to members of each scheme, after allowing for expected future increases in earnings.

Of the total contributions made to the scheme of £37,392,000 (2004 £44,512,000), £13,010,000 (2004 £12,631,000) were made by fellow group undertakings in respect of employees originally employed by the Bank and entitled to continue as members of the scheme.

Contributions to the scheme are charged to the profit and loss account so as to spread the expected cost of pensions on a systematic basis over employees' working lives, currently estimated as being fourteen years. A long term investment rate on existing investments of 6.65% together with the other actuarial assumptions detailed above are used by the Group to calculate the pension cost. Contributions to the scheme were higher than the actuarial cost to the Bank and, as a result, the existing prepayment has been increased to £7,611,000 at 30 September 2005 (2004 £4,073,000).

With effect from 1 January 2004 the Group participates in a defined contribution pension scheme for new staff and closed the original defined benefit scheme to new staff. This does not affect the pension arrangements of existing employees. In relation to this scheme the pension charge for the period for the Group and fellow subsidiary companies is disclosed in the Financial Statements of National Australia Group Europe Limited ("NAGE").

The Bank also provides post-retirement health care under a defined benefit scheme for pensioners and their dependant relatives for which provision has been made (Note 26).

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 6. Pension scheme (continued)

#### FRS 17 disclosure

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", the following transitional disclosures are required under FRS 17 "Retirement Benefits", in relation to the defined benefit schemes.

The valuations were updated by the actuary on an FRS 17 basis as at 30 September 2003, 30 September 2004 and 30 September 2005 and the major assumptions used in these valuations were:

	2005 % p.a.	2004 % p.a.	2003 % p.a.
Inflation	2.80	2.80	2.50
Rate of increase in salaries	3.80	4.30	4.00
Rate of increase for pensions in payment and deferred pensions	2.80	2.80	2.50
Discount rate	5.10	5.67	5.50

The assumptions used by the actuary are the best estimate chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the schemes assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Yorkshire Bank			Clydesdale Bank		
	2005 £'000	2004 £'000	2003 £'000	2005 £'000	2004 £'000	2003 £'000
<i>Assets in the scheme were as follows:</i>						
Equities	500,000	475,000	425,000	532,000	505,000	455,000
Government bonds	145,000	71,000	60,000	154,000	76,000	65,000
Cash	4,000	7,000	8,000	4,000	7,000	6,000
Corporate bonds	48,000	37,000	40,000	51,000	39,000	42,000
Property	18,000	-	-	19,000	-	-
Total market value of scheme assets	<u>715,000</u>	<u>590,000</u>	<u>533,000</u>	<u>760,000</u>	<u>627,000</u>	<u>568,000</u>
Present value of scheme liabilities	806,000	701,000	639,000	1,008,000	840,000	780,000
Deficit in the scheme	<u>(91,000)</u>	<u>(111,000)</u>	<u>(106,000)</u>	<u>(248,000)</u>	<u>(213,000)</u>	<u>(212,000)</u>
Related deferred tax asset	27,300	33,300	31,800	74,400	63,900	63,600
Net pension liability	<u>(63,700)</u>	<u>(77,700)</u>	<u>(74,200)</u>	<u>(173,600)</u>	<u>(149,100)</u>	<u>(148,400)</u>

	2005 % p.a.	2004 % p.a.	2003 % p.a.	2005 % p.a.	2004 % p.a.	2003 % p.a.
	<i>Expected rate of return on the above assets:</i>					
Equities	8.10	8.70	8.60	8.10	8.70	8.60
Government bonds	4.30	4.90	4.70	4.30	4.90	4.70
Cash	4.50	4.75	3.50	4.50	4.75	3.50
Corporate bonds	5.00	5.50	5.30	5.00	5.50	5.30
Property	6.55	7.10	7.00	6.55	7.10	7.00

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**6. Pension scheme (continued)**

**FRS 17 disclosure (continued)**

	Yorkshire Bank		Clydesdale Bank	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
<b>Movement in deficit during the year</b>				
Deficit in the scheme at 1 October	(111,000)	(106,000)	(213,000)	(212,000)
Movement in year:				
Current service cost	(24,200)	(22,200)	(23,700)	(21,400)
Contributions	21,300	18,800	27,400	27,100
Past service cost	(4,800)	-	(2,500)	(1,000)
Curtailement gain	2,300	-	1,200	-
Other finance income	8,000	7,100	3,200	2,500
Actuarial loss	17,400	(8,700)	(40,600)	(8,200)
<b>Deficit in the scheme at 30 September</b>	<b>(91,000)</b>	<b>(111,000)</b>	<b>(248,000)</b>	<b>(213,000)</b>

The amount of this net pension liability would have a consequential effect on reserves if FRS 17 accounting was fully adopted.

	2005	As restated 2004
	£'000	£'000
<b>Analysis of the amount that would be charged to operating profit</b>		
Current service cost	47,900	43,600
Past service cost	7,300	1,000
<b>Total operating charge</b>	<b>55,200</b>	<b>44,600</b>

Under SSAP 24 £23,135,000 (2004 £29,767,000) has been charged through the current year's profit and loss account (note 3).

	2005	As restated 2004
	£'000	£'000
<b>Analysis of the amount that would be credited to other finance income</b>		
Expected return on pension scheme assets	97,200	86,500
Interest on pension scheme liabilities	(86,000)	(76,900)
<b>Net return</b>	<b>11,200</b>	<b>9,600</b>

	2005	As restated 2004
	£'000	£'000
<b>Analysis of amount that would be recognised in the statement of total recognised gains and losses</b>		
Actual return less expected return on pension scheme assets	162,600	28,000
Experience gains and losses arising on scheme liabilities	(18,000)	(2,900)
Changes in assumptions underlying the present value of the scheme liabilities	(167,800)	(42,000)
<b>Total amount that would be recognised in the statement of total recognised gains and losses</b>	<b>(23,200)</b>	<b>(16,900)</b>

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**6. Pension scheme (continued)**

**FRS 17 disclosure (continued)**

*History of experience gains and losses*

**Clydesdale Bank**

	2005	2004	2003	2002
<b>Difference between the expected and actual return on scheme assets</b> Amount (£'000)	<u>84,600</u>	<u>13,300</u>	<u>44,800</u>	<u>(152,800)</u>
Percentage of scheme assets	<u>11.1%</u>	<u>2.1%</u>	<u>7.9%</u>	<u>31.4%</u>
<b>Experience gains and losses on scheme liabilities</b> Amount (£'000)	<u>(10,000)</u>	<u>1,500</u>	<u>(4,200)</u>	<u>(10,200)</u>
Percentage of the present value of the scheme liabilities	<u>1.0%</u>	<u>0.2%</u>	<u>0.5%</u>	<u>1.5%</u>
<b>Total amount that would be recognised in statement of total recognised gains and losses</b> Amount (£'000)	<u>(40,600)</u>	<u>(8,200)</u>	<u>(12,400)</u>	<u>(207,600)</u>
Percentage of the present value of the scheme liabilities	<u>4.0%</u>	<u>1.0%</u>	<u>1.6%</u>	<u>30.3%</u>

**Yorkshire Bank**

<b>Difference between the expected and actual return on scheme assets</b> Amount (£'000)	<u>78,000</u>	<u>14,700</u>	<u>40,800</u>	<u>(145,000)</u>
Percentage of scheme assets	<u>10.9%</u>	<u>2.5%</u>	<u>7.7%</u>	<u>30.9%</u>
<b>Experience gains and losses on scheme liabilities</b> Amount (£'000)	<u>(8,000)</u>	<u>(4,400)</u>	<u>2,100</u>	<u>500</u>
Percentage of the present value of the scheme liabilities	<u>1.0%</u>	<u>0.6%</u>	<u>0.3%</u>	<u>0.1%</u>
<b>Total amount that would be recognised in statement of total recognised gains and losses</b> Amount (£'000)	<u>17,400</u>	<u>(8,700)</u>	<u>(4,200)</u>	<u>(189,500)</u>
Percentage of the present value of the scheme liabilities	<u>2.2%</u>	<u>1.2%</u>	<u>0.7%</u>	<u>33.9%</u>

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**7. Tax on profit on ordinary activities**

**a) Analysis of charge in period**

	2005 £'000	As restated 2004 £'000
The charge for taxation comprises:		
<i>Current tax</i>		
United Kingdom corporation tax at 30% (2004 30%)	67,345	100,857
Associated undertaking	22	9
Total current tax	<u>67,367</u>	<u>100,866</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences		
- current year	(7,059)	(7,240)
- prior year	357	(278)
Total deferred tax	<u>(6,702)</u>	<u>(7,518)</u>
<i>Tax on profit on ordinary activities</i>	<u>60,665</u>	<u>93,348</u>

**b) Factors affecting tax charge for the period**

The tax assessed for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £'000	As restated 2004 £'000
Profit on ordinary activities before tax	<u>185,190</u>	<u>284,788</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2004 30%)	<u>55,556</u>	<u>85,437</u>
Effects of:		
Expenses not deductible for tax purposes	4,752	8,876
Amounts not subject to UK tax (primarily disposal of properties and revaluation of properties)	-	(687)
Timing differences	7,059	7,240
Current tax charge for period	<u>67,367</u>	<u>100,866</u>

**c) Factors that may affect future tax charges**

There are no items which would materially affect the future tax charge. No provision is made for deferred tax on gains arising on the revaluation of fixed assets, as such gains would become taxable only if the asset were sold.

**8. Profit dealt with in the Financial Statements of the Bank**

The profit on ordinary activities after tax of the Bank for the year is £139,582,000 (2004 £146,767,000).

**9. Dividends**

	2005 £'000	As restated 2004 £'000
Dividends paid		
1st interim - nil p per share (2004 22p per share, Clydesdale Bank)	-	45,000
1st interim - nil p per share (2004 35.8p per share, Yorkshire Bank)	-	30,000
2nd interim - nil p per share (2004 57.7p per share, Yorkshire Bank)	-	39,000
	<u>-</u>	<u>114,000</u>

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 10. Loans and advances to banks

Group and Bank	As restated	
	2005 £'000	2004 £'000
Remaining maturity:		
- on demand or at short notice	275,255	568,824
- 3 months or less	481,576	801,047
- 5 years or less but over 1 year	6,513	6,513
- over 5 years	24,823	35,694
	<u>788,167</u>	<u>1,412,078</u>
Amounts include:		
Due from parent and fellow subsidiary undertakings	<u>14,860</u>	<u>1,383,289</u>

### 11. Loans and advances to customers

	Group		Bank	
	2005 £'000	As restated 2004 £'000	2005 £'000	As restated 2004 £'000
Remaining maturity:				
- on demand or at short notice	4,226,066	3,100,011	7,064,349	5,627,502
- 3 months or less	1,224,039	1,238,194	1,217,493	1,242,746
- 1 year or less but over 3 months	1,827,989	1,805,581	1,757,396	1,523,837
- 5 years or less but over 1 year	4,170,277	4,016,462	3,672,327	3,141,573
- over 5 years	8,056,307	6,233,675	5,862,959	4,926,558
	<u>19,504,678</u>	<u>16,393,923</u>	<u>19,574,524</u>	<u>16,462,216</u>
General and specific bad and doubtful debt provisions (Note 13)	<u>(200,264)</u>	<u>(204,425)</u>	<u>(192,257)</u>	<u>(195,456)</u>
	<u>19,304,414</u>	<u>16,189,498</u>	<u>19,382,267</u>	<u>16,266,760</u>
Amounts include:				
Due from subsidiary undertakings - unsubordinated			<u>142,527</u>	<u>3,096,781</u>

The costs of assets acquired by the Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £42,258,000 (2004 £48,480,000) and £816,478,000 (2004 £725,547,000) respectively. The total closing balances of finance leases and hire purchase contracts were £261,500,000 (2004 £253,474,000) and £1,126,298,000 (2004 £1,078,407,000) respectively.

### 12. Concentration of exposure

Group	As restated	
	2005 £'000	2004 £'000
<i>Loans and advances to customers</i>		
Commercial and industrial	3,019,577	2,616,830
Agriculture, forestry, fishing and mining	632,823	577,054
Manufacturing	615,248	577,031
Construction	662,136	441,742
Financial, investment and insurance	343,608	286,450
Property	2,691,917	1,862,738
Other lease finance	877,930	837,792
Personal - mortgages	7,303,937	5,762,386
Personal - other	2,329,039	2,616,330
Other	1,028,463	815,570
	<u>19,504,678</u>	<u>16,393,923</u>

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 13. Provisions for bad and doubtful debts

	Specific 2005 £'000	General 2005 £'000	Total 2005 £'000	As restated Specific 2004 £'000	As restated General 2004 £'000	As restated Total 2004 £'000
<b>Group</b>						
Opening balance	45,060	159,365	204,425	41,138	135,671	176,809
Charge for the year	81,579	4,196	85,775	80,877	23,694	104,571
Amounts written off	(135,028)	-	(135,028)	(125,604)	-	(125,604)
Recoveries of amounts written off in previous years	45,092	-	45,092	48,649	-	48,649
<b>Closing balance</b>	<b>36,703</b>	<b>163,561</b>	<b>200,264</b>	<b>45,060</b>	<b>159,365</b>	<b>204,425</b>
<b>Bank</b>						
Opening balance	43,461	151,995	195,456	39,289	129,151	168,440
Charge for the year	80,260	3,066	83,326	80,540	22,844	103,384
Amounts written off	(131,412)	-	(131,412)	(124,652)	-	(124,652)
Reclassification	(1,275)	1,275	-	-	-	-
Recoveries of amounts written off in previous years	44,887	-	44,887	48,284	-	48,284
<b>Closing balance</b>	<b>35,921</b>	<b>156,336</b>	<b>192,257</b>	<b>43,461</b>	<b>151,995</b>	<b>195,456</b>

	Group		Bank	
	As restated 2005 £'000	2004 £'000	As restated 2005 £'000	2004 £'000
<i>Amounts included in</i>				
Loans and advances to customers (Note 11)	200,264	204,425	192,257	195,456
<i>Non accrual loans</i>				
Loans and advances to customers	42,104	70,380	21,214	68,096
Provisions	(14,228)	(34,410)	(13,453)	(33,348)
Total	27,876	35,970	7,761	34,748

### 14. Debt securities

	Book value 2005 £'000	Market value 2005 £'000	As restated Book value 2004 £'000	As restated Market value 2004 £'000
<b>Group and Bank</b>				
<b>Issued by other issuers</b>				
<i>Investment securities</i>				
- other debt securities (unlisted)	538	538	250,538	250,538
<i>Amounts include</i>				
Due one year and over	538		250,538	

	Cost £'000	Provisions £'000	Book value £'000
Investment securities			
At 1 October 2004 (as restated)	250,631	(93)	250,538
Disposals	(250,093)	93	(250,000)
<b>At 30 September 2005</b>	<b>538</b>	<b>-</b>	<b>538</b>

## CLYDESDALE BANK PLC

### Notes to the Financial Statements (continued)

15. Equity shares	Book	Market	As restated	As restated
	value	value	Book	Market
Group and Bank	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
<b>Investment securities</b>				
- listed	10	10	10	10
- unlisted	778	778	778	778
	<b>788</b>	<b>788</b>	<b>788</b>	<b>788</b>
		<b>Cost</b>	<b>Provisions</b>	<b>Book value</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investment securities</b>				
<b>At 30 September 2005</b> and 2004 (as restated)		<b>1,077</b>	<b>(289)</b>	<b>788</b>

### 16. Interest in associated undertaking

The associated undertaking is The Scottish Agricultural Securities Corporation plc, its country of registration and operations being Scotland. The associated undertaking's principal activity is in the provision of finance and the Group's interest of 33.33% in the issued equity capital of £2,000,000 is held by the Bank. The associated undertaking has a 31 March year end. The Bank carries the investment at original cost.

### 17. Subsidiary undertakings

	2005	As restated
Bank	£'000	2004
		£'000
<b>At 30 September 2005</b> and 2004 (as restated)	<b>32,751</b>	<b>183,383</b>

The current year reduction in the value of Clydesdale Bank's investments in subsidiary undertakings relates to the redemption of the preference shares of one of its subsidiary entities, Clydesdale Europe Finance Limited.

### Principal subsidiary undertakings at 30 September 2005

Principal subsidiary undertakings	Nature of business	Country of incorporation and principal operations	Financial Year End
Clydesdale Europe Finance Limited	Structured finance	Jersey	30 September
Clydesdale Bank Asset Finance Limited	Leasing and hire purchase	Scotland	30 September
Yorkshire Bank Home Loans Limited	Mortgage Finance	England	30 September
Yorlease Limited	Lease Management	England	30 June
Yorkshire Bank Commercial Leasing Limited	Lease Finance	England	31 December
YB Lease Limited	Lease Finance	England	30 June
Northern and General Finance Limited	Lease Finance	England	30 September
Yorkshire Bank Equipment Leasing Limited	Lease Finance	England	31 March
Storecard Limited	Finance	England	30 September
Yorkshire Bank Retail Services Limited	Finance	England	30 September
Machill Investments Limited	Finance	England	30 September
Yorkshire Bank Investments Limited	Development Capital Investment	England	30 September
Allerton House Properties Limited	Property	England	30 September

## CLYDESDALE BANK PLC

### Notes to the Financial Statements (continued)

#### 17. Subsidiary undertakings (continued)

All the principal subsidiary undertakings are wholly owned by the Bank. Details of all subsidiary undertakings will be annexed to the next Annual Return of the Bank.

Where a subsidiary has a financial year end other than 30 September, the consolidated Financial Statements include interim management accounts prepared to 30 September 2005.

Pursuant to the National Australia Group Europe Act 2001, the entire business and undertaking of Yorkshire Bank PLC was transferred to Clydesdale Bank PLC on 1 December 2004. Merger accounting has been applied and, as per the Act, the transfer will be given the effective date of 1 October 2004. Thus Clydesdale Bank PLC will be treated as having acquired the assets, liabilities and reserves of Yorkshire Bank PLC with effect from 1 October 2004.

#### 18. Operating lease assets

<b>Group</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net Book Value</b>
<b>Motor vehicles, fixtures and equipment</b>			
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 October 2004 (as restated)	197,458	16,578	180,880
Additions	24,850	-	24,850
Charge for the year	-	27,046	(27,046)
<b>At 30 September 2005</b>	<b>222,308</b>	<b>43,624</b>	<b>178,684</b>

#### Residual values

The following table sets out the maturity of the Group's un-guaranteed residual values of assets leased to customers:

<b>Recoverable</b>	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
- 1 year or less	2,131	-	2,131
- 2 years or less but greater than 1 year	11,949	56	12,005
- 5 years or less but greater than 2 years	53,942	568	54,510
- Over 5 years	4,478	143	4,621
<b>Total</b>	<b>72,500</b>	<b>767</b>	<b>73,267</b>

Regular reviews are made of residual values in the light of available market data and impairments are made in respect of losses where ultimate recovery is in doubt.

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**19. Tangible fixed assets**

*Movements on tangible fixed assets*

	<b>Freehold land and buildings</b>	<b>Leases of 50 years and over unexpired</b>	<b>Leases of under 50 years unexpired</b>	<b>Motor vehicles, fixtures and equipment</b>	<b>Total</b>
<b>Group</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or valuation</b>					
At 1 October 2004 (as restated)	110,366	9,484	56,641	230,664	407,155
Additions	3,534	3,912	10,592	15,630	33,668
Reclassifications	-	(6)	6	6	6
Disposals	(7,585)	(87)	(744)	(5,451)	(13,867)
Deficit on revaluation	(2,057)	(444)	-	-	(2,501)
<b>At 30 September 2005</b>	<b>104,258</b>	<b>12,859</b>	<b>66,495</b>	<b>240,849</b>	<b>424,461</b>
<b>Accumulated depreciation</b>					
At 1 October 2004 (as restated)	394	77	31,225	188,298	219,994
Charge for the year	2,405	242	4,752	12,379	19,778
Reclassifications	-	(6)	6	6	6
Disposals	(21)	-	(1,401)	(3,709)	(5,131)
Released on revaluation	(2,382)	(275)	-	-	(2,657)
<b>At 30 September 2005</b>	<b>396</b>	<b>38</b>	<b>34,582</b>	<b>196,974</b>	<b>231,990</b>
<b>Net book value</b>					
<b>At 30 September 2005</b>	<b>103,862</b>	<b>12,821</b>	<b>31,913</b>	<b>43,875</b>	<b>192,471</b>
At 30 September 2004 (as restated)	109,972	9,407	25,416	42,366	187,161
<b>Bank</b>					
<b>Cost or valuation</b>					
At 1 October 2004 (as restated)	110,366	9,484	56,641	230,471	406,962
Additions	3,534	3,912	10,592	15,630	33,668
Reclassifications	-	(6)	6	6	6
Disposals	(7,585)	(87)	(744)	(5,451)	(13,867)
Deficit on revaluation	(2,057)	(444)	-	-	(2,501)
<b>At 30 September 2005</b>	<b>104,258</b>	<b>12,859</b>	<b>66,495</b>	<b>240,656</b>	<b>424,268</b>
<b>Accumulated depreciation</b>					
At 1 October 2004 (as restated)	394	77	31,225	188,105	219,801
Charge for the year	2,405	242	4,752	12,379	19,778
Reclassifications	-	(6)	6	6	6
Disposals	(21)	-	(1,401)	(3,709)	(5,131)
Released on revaluation	(2,382)	(275)	-	-	(2,657)
<b>At 30 September 2005</b>	<b>396</b>	<b>38</b>	<b>34,582</b>	<b>196,781</b>	<b>231,797</b>
<b>Net book value</b>					
<b>At 30 September 2005</b>	<b>103,862</b>	<b>12,821</b>	<b>31,913</b>	<b>43,875</b>	<b>192,471</b>
At 30 September 2004 (as restated)	109,972	9,407	25,416	42,366	187,161

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**19. Tangible fixed assets (continued)**

*Assets held under finance leases and hire purchase contracts*

The net book value of motor vehicles, fixtures and equipment includes assets held under finance leases and hire purchase contracts of £5,448,000 (2004 £4,574,000), net of accumulated depreciation of £3,204,000 (2004 £6,791,000).

**Valuations**

Cost or valuation of freehold and leasehold land and buildings at 30 September comprises:

	<b>2005</b>	As restated 2004
	<b>£'000</b>	£'000
At current year valuation	<b>114,903</b>	114,696
At cost	<b>68,709</b>	61,795
	<b><u>183,612</u></b>	<u>176,491</u>

Freehold, and leasehold properties where the original lease is more than thirty years, are revalued on a three year cycle. In addition all properties with a material carrying value are revalued annually to reflect their current market value on an existing use basis. These valuations are carried out by Donaldsons, Chartered Surveyors who are external qualified valuers as defined in the RICS Appraisal and Valuation Manual. The basis of valuation is existing use value and the professional valuations have been made in accordance with the RICS Practice Statements and Guidance Notes.

On the historical cost basis, freehold and leasehold land and buildings would have been included as follows:

	<b>2005</b>	As restated 2004
	<b>£'000</b>	£'000
Cost	<b>210,884</b>	198,592
Accumulated depreciation	<b>(90,188)</b>	(86,348)
Net book value	<b><u>120,696</u></b>	<u>112,244</u>

*Land and buildings occupied for own activities*

	<b>2005</b>	As restated 2004
	<b>£'000</b>	£'000
Net book value	<b><u>117,235</u></b>	<u>130,455</u>

**20. Other assets**

	<b>Group</b>		<b>Bank</b>	
	<b>2005</b>	As restated 2004	<b>2005</b>	As restated 2004
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Foreign exchange contracts	<b>28,001</b>	26,035	<b>28,001</b>	26,035
Sundry debtors	<b>3,785</b>	5,269	<b>3,785</b>	5,269
Other	<b>160,990</b>	116,393	<b>159,884</b>	109,916
	<b><u>192,776</u></b>	<u>147,697</u>	<b><u>191,670</u></b>	<u>141,220</u>
Amounts include:				
Due from parent and fellow subsidiary undertakings	<b><u>18,276</u></b>	<u>19,985</u>	<b><u>18,276</u></b>	<u>19,985</u>

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

	2005	As restated 2004
	£'000	£'000
<b>21. Deferred taxation</b>		
<b>Group</b>		
Other timing differences	80,201	60,447
Accelerated capital allowances	<u>(31,387)</u>	<u>(18,335)</u>
	<u><b>48,814</b></u>	<u><b>42,112</b></u>
<b>Bank</b>		
Other timing differences	73,764	54,482
Accelerated capital allowances	<u>(735)</u>	<u>(182)</u>
	<u><b>73,029</b></u>	<u><b>54,300</b></u>
	<b>Group</b>	<b>Bank</b>
	£'000	£'000
At 1 October 2004 (as restated)	42,112	54,300
Charge to profit and loss account	<u>6,702</u>	<u>18,729</u>
<b>At 30 September 2005</b>	<u><b>48,814</b></u>	<u><b>73,029</b></u>

It is not considered necessary to provide for taxation on capital gains which might arise on the disposal of subsidiary undertakings at their balance sheet amounts, as it is anticipated that any liability will be either exempt or covered by other reliefs. Deferred taxation is not provided in respect of capital gains which might arise on the disposal of properties which are held for continuing use by the business. If there is a binding agreement to dispose of an asset then the liability to capital gains tax is included in the tax charge for the year.

There are no other material liabilities for deferred taxation not provided.

**22. Deposits by banks**

	2005	As restated 2004
	£'000	£'000
<b>Group and Bank</b>		
Repayable on demand	58,397	45,284
With agreed maturity dates or periods of notice by remaining maturity:		
- 3 months or less but not repayable on demand	784,515	1,509,293
- 1 year or less but over 3 months	460,314	482,664
- 5 years or less but over 1 year	1,967,520	1,537,505
- over 5 years	<u>197,687</u>	<u>44,950</u>
	<u><b>3,468,433</b></u>	<u><b>3,619,696</b></u>
Amounts include:		
Due to parent and fellow subsidiary undertakings	<u><b>3,338,656</b></u>	<u><b>3,619,587</b></u>

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 23. Customer accounts

	Group		Bank	
	2005 £'000	As restated 2004 £'000	2005 £'000	As restated 2004 £'000
Repayable on demand	10,157,969	9,414,358	10,158,808	9,496,393
With agreed maturity dates or periods of notice by remaining maturity :				
- 3 months or less but not repayable on demand	2,349,609	1,720,945	2,402,882	1,668,402
- 1 year or less but over 3 months	845,856	784,184	845,852	957,683
- 5 years or less but over 1 year	334,958	107,627	334,958	107,625
- over 5 years	1,889	17,460	1,889	17,460
	<u>13,690,281</u>	<u>12,044,574</u>	<u>13,744,389</u>	<u>12,247,563</u>
Amounts include :				
Due to subsidiary undertakings			54,748	204,036
Due to parent and fellow subsidiary undertakings	<u>895,271</u>	<u>94,550</u>	<u>895,271</u>	<u>94,550</u>

### 24. Debt securities in issue

Group and Bank	2005 £'000	As restated 2004 £'000
Other debt securities in issue by remaining maturity:		
- repayable on demand	223,073	-
- 3 months or less but not repayable on demand	963,819	3,000
- 1 year or less but over 3 months	155,309	-
	<u>1,342,201</u>	<u>3,000</u>

### 25. Other liabilities

	Group		Bank	
	2005 £'000	As restated 2004 £'000	2005 £'000	As restated 2004 £'000
Foreign exchange contracts	20,168	25,775	20,168	25,775
Taxation	63,279	76,100	31,246	46,873
Defeasance deposits	280,353	134,639	280,353	134,639
Other liabilities	219,228	233,090	226,091	245,057
	<u>583,028</u>	<u>469,604</u>	<u>557,858</u>	<u>452,344</u>
Amounts include:				
Due to parent and fellow subsidiary undertakings	<u>21,161</u>	<u>64,849</u>	<u>21,161</u>	<u>64,849</u>

### 26. Provisions for liabilities and charges

	Pensions and similar obligations £'000	Reorganisation £'000	Other £'000	Total £'000
Group and Bank				
At 1 October 2004 (as restated)	4,602	9,033	30,309	43,944
Charge to profit and loss account	(183)	101,695	1,850	103,362
Transfers	-	(227)	227	-
Provisions utilised	(339)	(32,502)	(12,770)	(45,611)
At 30 September 2005	<u>4,080</u>	<u>77,999</u>	<u>19,616</u>	<u>101,695</u>

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 26. Provisions for liabilities and charges (continued)

#### Pensions and similar obligations

The Bank provided for post-retirement health care under a defined benefit scheme for pensioners and their dependent relatives for which a provision has been raised. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members.

#### Reorganisation

The opening balance under this category related to the remaining balance of a reorganisation provision that was recognised during the year ended 30 September 2002. This was fully utilised during the year.

Following a review of operations a further reorganisation provision was recognised during the year. The provision is to cover the costs associated with the streamlining of operations, reductions in staffing levels and the reconfiguration of distribution networks. The programme is expected to run over a two year period with utilisation of the provision expected by the end of the first half of the 2007 calendar year.

#### Other

This category includes:

- provision for surplus leased space. The Group provides for committed rental expense on surplus lease space in line with the expected year's exposure on individual leases where the property is unoccupied. The provision will be utilised over the remaining life of the lease or until the lease is assigned. The provision is measured at present values by discounting anticipated future cash flows.
- provision for costs associated with claims for mis-sold endowment policies. If a customer believes that an endowment policy may have been mis-sold by the Bank, they are able to have the basis of the advice examined, subject to certain time limits. The provision recognised is the best estimate of future costs given current claims experience.
- provision for costs arising in respect of a number of legal actions and claims arising in the ordinary course of the Bank's business.

### 27. Subordinated liabilities

Subordinated liabilities comprise entirely of undated loan capital which is provided to the Bank by NAGE, a parent undertaking. Interest on the loans is payable at rates related to the London Interbank Offered Rate ("LIBOR"). The loans are subject to five years and one day's notice of redemption by the lenders and are repayable at par. Early repayment is at the option of the borrower, subject to the prior consent of the Financial Services Authority. The loans are subordinated to the claims of other creditors and are unsecured. The loans are employed in the general business of the Bank.

Details of subordinated liabilities in excess of 10% of the total balance are disclosed below.

	2005 £'000	As restated 2004 £'000
<b>Undated loan capital</b>		
5.51688% Undated subordinated notes	65,000	65,000
5.24125% Undated subordinated notes	100,000	100,000
	<u>165,000</u>	<u>165,000</u>
Other undated subordinated notes	407,000	357,000
	<u>572,000</u>	<u>522,000</u>

The rates of interest stated above apply as at 30 September 2005.

### 28. Called up share capital

	Number	£
<b>Authorised</b>		
Ordinary shares of £1 each - equity	<u>204,785,000</u>	<u>204,785,000</u>
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £1 each - equity		
At 30 September 2005 and 2004 (as restated)		<u>204,785,000</u>

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**29. Reserves**

	<b>The Bank and subsidiary undertakings £'000</b>	<b>Associate £'000</b>	<b>Group £'000</b>	<b>Bank £'000</b>
<b>Share premium account</b>				
At 30 September 2005 and 2004 (as restated)	<u>45,215</u>	<u>-</u>	<u>45,215</u>	<u>45,215</u>
<b>Revaluation reserve</b>				
At 1 October 2004 (as restated)	19,327	-	19,327	19,325
Revaluation of properties	601	-	601	601
Transfer to profit and loss account	(473)	-	(473)	(473)
At 30 September 2005	<u>19,455</u>	<u>-</u>	<u>19,455</u>	<u>19,453</u>
<b>Merger reserve</b>				
At 30 September 2005 and 2004 (as restated)	<u>337,500</u>	<u>-</u>	<u>337,500</u>	<u>337,500</u>

The Merger Reserve arises as a result of the transfer of the entire business and undertaking of Yorkshire Bank PLC to Clydesdale Bank PLC on 1 December 2004. As both entities were under common ownership, FRS 6 states that this transfer can be classified as a Group reconstruction and thus it has been accounted for by the use of merger accounting. The transfer has been given the effective date of 1 October 2004 and thus Clydesdale Bank PLC will be treated as having acquired the assets, liabilities and reserves of Yorkshire Bank PLC with effect from that date. As no consideration was paid in relation to the transfer the only impact arising is the crystallisation of the Yorkshire Bank PLC Share Capital and Share Premium into a Merger Reserve in the combined entity.

	<b>The Bank and subsidiary undertakings £'000</b>	<b>Associate £'000</b>	<b>Group £'000</b>	<b>Bank £'000</b>
<b>Profit and loss account</b>				
At 1 October 2004 (as restated)	627,236	2,005	629,241	543,779
Retained profit for the financial year	124,427	98	124,525	139,582
Transfer from revaluation reserve	473	-	473	473
At 30 September 2005	<u>752,136</u>	<u>2,103</u>	<u>754,239</u>	<u>683,834</u>

**30. Memorandum items**

	<b>Contract amount 2005 £'000</b>	<b>Risk weighted amount 2005 £'000</b>	<b>As restated Contract amount 2004 £'000</b>	<b>As restated Risk weighted amount 2004 £'000</b>
<b>Group and Bank Contingent liabilities</b>				
Acceptance and endorsements	6,550	6,550	23,080	11,080
Guarantees and assets pledged as collateral security - guarantees and irrevocable letters of credit	516,249	294,675	523,336	431,612
Other contingent liabilities	13,119	13,119	460	460
	<u>535,918</u>	<u>314,344</u>	<u>546,876</u>	<u>443,152</u>

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 30. Memorandum items (continued)

Group and Bank	Contract amount 2005 £'000	Risk weighted amount 2005 £'000	As restated	As restated
			Contract amount 2004 £'000	Risk weighted amount 2004 £'000
<b>Commitments</b>				
Other commitments				
- documentary credits and short term trade-related transactions	-	-	25,191	5,038
- undrawn formal standby facilities, credit lines and other commitments to lend				
- 1 year or less	887,688	249,091	4,053,798	384,145
- over 1 year	9,806,512	-	4,127,920	-
	<u>10,694,200</u>	<u>249,091</u>	<u>8,206,909</u>	<u>389,183</u>

The tables above give the contract amounts and risk-weighted amounts of off-balance sheet transactions for the Group and Bank. The contract amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the Financial Services Authority guidelines.

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

### 31. Capital commitments

The Group had future capital expenditure which had been contracted but not provided in the Financial Statements of £8,112,000 (2004 £344,000) at 30 September 2005.

### 32. Lease commitments

Group and Bank	Land and buildings 2005 £'000	As restated Land and buildings 2004 £'000
<b>Operating lease commitments</b>		
Payments committed to be made during the next year under non-cancellable operating leases which expire:		
- within 1 year	513	393
- between 1 and 5 years	3,381	2,331
- over 5 years	20,580	18,899
	<u>24,474</u>	<u>21,623</u>

### 33. Other contingent liabilities

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

## CLYDESDALE BANK PLC

### Notes to the Financial Statements (continued)

#### 34. Derivatives and other financial instruments

The Group's management of certain risk factors that may impact the future results is discussed in the "Risk Overview" section on pages 44 to 47. The factors discussed should not be considered to be the complete list of all potential risks.

##### Use of derivatives

The CB Group uses derivatives to hedge its own balance sheet position. The CB Group's principal objective in holding or issuing derivatives is asset and liability management. The Bank does not trade in any financial instruments including derivatives and therefore does not have a trading book. The CB Group's activity is contained in the banking book which includes all of the financial instruments on the balance sheet. The operations of the CB Group are subject to the risk of interest rate fluctuations, to the extent that there is a difference between the amount of the interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. The principal objectives of asset and liability management are to protect levels of net interest income, while maintaining acceptable levels of interest rate liquidity risk and to facilitate the funding needs of the CB Group. To achieve these objectives, the CB Group uses a combination of derivative financial instruments, including foreign exchange, forward rate agreements, swaps, options, caps, floors and other contingent contracts. These hedge transactions within the CB Group are entered into with National Australia Bank Limited.

##### *Derivatives*

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

##### *Forward and futures contracts*

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

##### *Options*

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

##### *Swaps*

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

##### *Other financial instruments*

In addition to derivatives, various financial instruments, for example, loans and advances, deposits, debt securities, trade debtors and creditors and accruals, arise directly from the CB Group's operations. Where the fair value of these differ from the book value details are given in the appropriate note to the Financial Statements. The disclosures in these notes include all short-term debtors and creditors.

##### Summary of outstanding derivative contracts

The following tables give the contract amount and fair values at balance sheet date of the CB Group's outstanding derivative contracts, distinguishing between foreign exchange rate and interest rate related contracts. The fair value is the amount at which instruments could be exchanged in an arm's length transaction. The notional contract amount does not represent the CB Group's real exposure to credit risk which is limited to the current cost of replacing contracts at current market rates should the counterparties default. No account is taken of master netting agreements which reduce the gross exposure. The fair value at a particular point in time gives no indication of whether future gains or losses will be incurred, or any indication of size that those gains or losses are likely to be.

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 34. Derivatives and other financial instruments (continued)

#### Summary of outstanding derivative contracts (continued)

##### Group

	Contract amount 2005 £'000	Fair value		As restated Contract amount 2004 £'000	As restated Fair value	
		Positive 2005 £'000	Negative 2005 £'000		Positive 2004 £'000	Negative 2004 £'000
<b>Non trading derivatives</b>						
<i>Foreign exchange derivatives</i>						
Forward foreign exchange	2,328,728	26,608	18,774	1,520,102	23,692	23,432
Other foreign exchange	220,151	1,393	1,394	282,276	2,343	2,343
Total	<u>2,548,879</u>	<u>28,001</u>	<u>20,168</u>	<u>1,802,378</u>	<u>26,035</u>	<u>25,775</u>
<i>Equity derivatives</i>						
Options	<u>46,136</u>	<u>799</u>	<u>-</u>	<u>46,105</u>	<u>888</u>	<u>-</u>
<i>Commodity derivatives</i>						
Options	<u>7,626</u>	<u>251</u>	<u>251</u>	<u>1,680</u>	<u>289</u>	<u>289</u>
<i>Interest rate derivatives</i>						
Swaps	9,743,853	55,377	111,504	11,026,639	43,498	129,095
Forward rate agreements	45,290	32	32	3,653,700	-	1,786
Options	2,558,264	22,472	21,239	1,955,367	12,821	17,981
Total	<u>12,347,407</u>	<u>77,881</u>	<u>132,775</u>	<u>16,635,706</u>	<u>56,319</u>	<u>148,862</u>
<b>Total non trading derivatives</b>	<u><b>14,950,048</b></u>	<u><b>106,932</b></u>	<u><b>153,194</b></u>	<u><b>18,485,869</b></u>	<u><b>83,531</b></u>	<u><b>174,926</b></u>

An analysis of the contract amount and positive fair value of investments entered into with third parties by the counterparty type is set out below:

	Contract amount 2005 £'000	Fair value 2005 £'000	As restated	As restated
			Contract amount 2004 £'000	Fair value 2004 £'000
<b>Counterparty</b>				
Ultimate parent company and fellow subsidiary undertakings	11,858,489	61,680	15,969,275	52,290
Other OECD Banks	23,000	1,042	532,176	2,776
Other	3,068,559	44,210	1,984,418	28,465
Total	<u>14,950,048</u>	<u>106,932</u>	<u>18,485,869</u>	<u>83,531</u>
Remaining maturity:				
- within one year	5,700,283	31,877	9,110,841	32,381
- between one and five years	7,005,113	48,230	7,404,845	29,727
- over five years	2,244,652	26,825	1,970,183	21,423
Total	<u>14,950,048</u>	<u>106,932</u>	<u>18,485,869</u>	<u>83,531</u>

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 34. Derivatives and other financial instruments (continued)

#### Interest rate sensitivity gap analysis

Part of the Group's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The tables below summarise these repricing mismatches on the Group's non-trading book as at 30 September 2005 and 30 September 2004. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

#### Interest rate sensitivity gap

2005	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non interest bearing £'000	Total £'000
<b>Assets:</b>							
Loans and advances to banks	571,659	85,254	11,386	25,490	-	94,378	788,167
Loans and advances to customers	13,543,112	563,187	1,006,131	3,319,146	1,060,769	(187,931)	19,304,414
Debt securities and equity shares	788	-	-	-	-	538	1,326
All other assets	-	-	-	-	-	2,199,239	2,199,239
<b>Total assets</b>	<b>14,115,559</b>	<b>648,441</b>	<b>1,017,517</b>	<b>3,344,636</b>	<b>1,060,769</b>	<b>2,106,224</b>	<b>22,293,146</b>
<b>Liabilities:</b>							
Deposits by banks	2,885,000	91,472	100,000	200,000	119,457	72,504	3,468,433
Customer accounts	11,740,307	273,047	181,886	196,137	568	1,298,336	13,690,281
Debt securities in issue	1,201,045	24,473	116,683	-	-	-	1,342,201
All other liabilities	135,939	-	-	-	-	1,723,098	1,859,037
Subordinated liabilities	572,000	-	-	-	-	-	572,000
Shareholders' funds	-	-	-	-	-	1,361,194	1,361,194
<b>Total liabilities and shareholders' funds</b>	<b>16,534,291</b>	<b>388,992</b>	<b>398,569</b>	<b>396,137</b>	<b>120,025</b>	<b>4,455,132</b>	<b>22,293,146</b>
Off balance sheet items	(2,137,695)	1,009,803	380,993	1,576,982	(830,083)	-	-
Interest rate sensitivity gap	(4,556,427)	1,269,252	999,941	4,525,481	110,661	(2,348,908)	
<b>Cumulative gap</b>	<b>(4,556,427)</b>	<b>(3,287,175)</b>	<b>(2,287,234)</b>	<b>2,238,247</b>	<b>2,348,908</b>		

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 34. Derivatives and other financial instruments (continued)

#### Interest rate sensitivity gap analysis (continued)

2004 (as restated)

Group	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non - interest bearing £'000	Total £'000
<b>Assets:</b>							
Loans and advances to banks	1,392,148	159	172	10,836	505	8,258	1,412,078
Loans and advances to customers	11,778,897	571,346	879,634	2,243,582	796,467	(80,428)	16,189,498
Debt securities and equity shares	60,788	-	-	190,000	-	538	251,326
All other assets	-	-	-	-	-	1,095,931	1,095,931
<b>Total assets</b>	<b>13,231,833</b>	<b>571,505</b>	<b>879,806</b>	<b>2,444,418</b>	<b>796,972</b>	<b>1,024,299</b>	<b>18,948,833</b>
<b>Liabilities:</b>							
Deposits by banks	3,439,536	35,160	5,000	140,000	-	-	3,619,696
Customer accounts	10,259,381	217,718	162,072	97,111	888	1,307,404	12,044,574
Debt securities in issue	3,000	-	-	-	-	-	3,000
All other liabilities	134,639	-	-	-	-	1,388,856	1,523,495
Subordinated liabilities	522,000	-	-	-	-	-	522,000
Shareholders' funds	-	-	-	-	-	1,236,068	1,236,068
<b>Total liabilities and shareholders' funds</b>	<b>14,358,556</b>	<b>252,878</b>	<b>167,072</b>	<b>237,111</b>	<b>888</b>	<b>3,932,328</b>	<b>18,948,833</b>
Off balance sheet items	(1,861,989)	98,930	116,646	1,935,097	(288,684)	-	-
Interest rate sensitivity gap	(2,988,712)	417,557	829,380	4,142,404	507,400	(2,908,029)	
<b>Cumulative gap</b>	<b>(2,988,712)</b>	<b>(2,571,155)</b>	<b>(1,741,775)</b>	<b>2,400,629</b>	<b>2,908,029</b>		

These tables do not take into account the effect of the interest rate options used by the Group to hedge its own positions. Details of these options are shown above under the interest rate derivatives disclosures.

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

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**34. Derivatives and other financial instruments (continued)**

**Unrecognised gains/(losses) on instruments used for hedging**

<b>2005</b>	<b>Gains £'000</b>	<b>Losses £'000</b>	<b>Total net gains/(losses) £'000</b>
At 1 October 2004 (as restated)	83,531	174,926	(91,395)
Gains and losses arising in previous years that were recognised in year ended 30 September 2004	32,720	82,644	(49,924)
Gains and losses arising before 1 October 2004 that were not recognised in year ended 30 September 2005	50,811	92,282	(41,471)
Gains and losses arising after 1 October 2004 that were not recognised in year ended 30 September 2005	56,121	60,912	(4,791)
<b>At 30 September 2005</b>	<b>106,932</b>	<b>153,194</b>	<b>(46,262)</b>
Of which gains and losses expected to be recognised in the year ended:			
30 September 2006	31,877	25,153	6,724
30 September 2007 or after	75,055	128,041	(52,986)
<b>2004 (as restated)</b>	<b>Gains £'000</b>	<b>Losses £'000</b>	<b>Total net gains/(losses) £'000</b>
At 1 October 2003	137,095	205,372	(68,277)
Gains and losses arising in previous years that were recognised in year ended 30 September 2003	89,088	85,387	3,701
Gains and losses arising before 1 October 2003 that were not recognised in year ended 30 September 2004	48,007	119,985	(71,978)
Gains and losses arising after 1 October 2003 that were not recognised in year ended 30 September 2004	35,524	54,941	(19,417)
<b>At 30 September 2004</b>	<b>83,531</b>	<b>174,926</b>	<b>(91,395)</b>
Of which gains and losses expected to be recognised in the year ended:			
30 September 2005	32,381	43,996	(11,615)
30 September 2006 or after	51,150	130,930	(79,780)

# CLYDESDALE BANK PLC

## Notes to the Financial Statements (continued)

### 35. Fair values of financial instruments

Financial instruments include both financial assets and financial liabilities and also derivatives. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For the purposes of this note, carrying value refers to amounts reflected in the Consolidated Balance Sheet.

The estimated fair values are based on relevant information available for the last two years at 30 September. These estimates are subjective in nature and involve matters of judgement. Changes in assumptions could have a material impact on the amounts estimated. The methodologies and assumptions used in the net fair value estimates are described below. These are not considered critical accounting policies of the Group, as they do not impact the recognition and measurement of items in the financial statements.

There are various limitations inherent in this disclosure. Not all of the Group's financial instruments can be exchanged in an active trading market. In addition, it is the Group's intent to hold most of its financial instruments to maturity and therefore it is not probable that the fair values shown will be realised in a current transaction. The methods used to estimate fair value exclude a wide range of intangible, franchise and relationship benefits such as core deposits and credit card intangibles, which are integral to a complete assessment of the Group's financial position. As a consequence, the aggregate fair value does not represent the underlying value of the Group.

Group		Carrying Value 2005 £'000	Fair value 2005 £'000	As restated Carrying Value 2004 £'000	As restated Fair value 2004 £'000
	Footnote				
<b>Financial assets:</b>					
Cash and balances at central banks	(a)	1,085,282	1,085,282	127,129	127,129
Items in the course of collection from other banks	(a)	287,125	287,125	232,594	232,594
Loans and advances to banks	(b)	788,167	788,167	1,412,078	1,412,078
Loans and advances to customers	(b)	19,304,414	19,304,414	16,189,498	16,189,498
Debt securities	(c)	538	538	250,538	250,538
Equity shares	(c)	788	788	788	788
On balance sheet derivatives (see analysis in Note 34)	(d)	28,001	28,001	26,035	26,035
<b>Financial liabilities:</b>					
Deposits by banks	(e)	3,468,433	3,468,433	3,679,696	3,679,696
Items in the course of transmission to other banks	(a)	72,167	72,167	67,021	67,021
Customer accounts	(e)	13,690,281	13,690,281	12,044,574	12,044,574
Debt securities in issue		1,342,201	1,342,201	3,000	3,000
Notes in circulation	(a)	962,039	962,039	823,890	823,890
Subordinated liabilities		572,000	572,000	522,000	522,000
On balance sheet derivatives (see analysis in Note 34)	(d)	20,168	20,168	25,775	25,775

The fair value estimates are based on the following methodologies and assumptions:

- the carrying amounts of these financial assets and financial liabilities approximate their fair value as they are short term in nature or are receivable or payable on demand;
- the carrying value of loans and advances is net of specific and general provisions for doubtful debts and unearned income. The fair values of loans and advances equate to the carrying value at 30 September.
- debt securities and equity shares consist of investment and other securities. The fair values of debt securities and equity shares are based on quoted closing market prices at 30 September;
- the fair values of derivative financial instruments, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at balance date, discounted cash flow models or option pricing models as appropriate;
- with respect to deposits by banks and customer accounts, the fair value equals the carrying value at 30 September.
- the fair value of debt securities in issue and subordinated liabilities are calculated based on quoted market prices. For those debt issues where quoted market prices are not available, the fair values equate to the carrying value at 30 September.

**CLYDESDALE BANK PLC**  
**Notes to the Financial Statements (continued)**

**36. Related party transactions**

*Transactions with directors, key management and their close family members*

Directors, key management and their close family members have undertaken the following transactions with the Group in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Group employees, or on normal commercial terms.

	<b>Persons</b>	<b>Amount</b>	As restated	As restated
	<b>2005</b>	<b>2005</b>	Persons	Amount
	<b>Number</b>	<b>£'000</b>	2004	2004
			Number	£'000
Loans - balance at 30 September	<b>11</b>	<b>3,503</b>	13	2,790

*Other related party transactions*

In the normal course of business the Group maintains accounts and conducts transactions with other members of the NAB Group. This business is conducted at prevailing market rates and terms and includes deposits taken and placed, interest rate and foreign exchange swaps and the provision of technology and other services. The Group has taken advantage of the exemption under FRS 8 "Related Party Disclosures" not to disclose full details of these transactions as more than 90% of the voting rights of the Group are controlled by NAB Group and the Consolidated Financial Statements of the NAB Group are publicly available.

The Group has transactions with the pension scheme as detailed in note 6. The Group charges the pension scheme with the cost of administration which amounted to £286,555 in the year ended 30 September 2005 (2004 £196,047). The Group has deposits of £4,340,737 (2004 £3,266,059) at the year end placed by the pension scheme at market rates.

**37. Assets and liabilities denominated in foreign currency**

	<b>Group</b>		<b>Bank</b>	
	<b>2005</b>	As restated	<b>2005</b>	As restated
	<b>£'000</b>	2004	<b>£'000</b>	2004
		£'000		£'000
Sterling	<b>21,433,305</b>	18,464,294	<b>21,390,377</b>	18,552,023
Currencies other than sterling	<b>859,841</b>	484,539	<b>859,841</b>	484,539
Total assets	<b>22,293,146</b>	18,948,833	<b>22,250,218</b>	19,036,562
Sterling	<b>21,433,305</b>	18,464,294	<b>21,390,377</b>	18,552,023
Currencies other than sterling	<b>859,841</b>	484,539	<b>859,841</b>	484,539
Total liabilities and shareholders' funds	<b>22,293,146</b>	18,948,833	<b>22,250,218</b>	19,036,562

The above table cannot be considered to reflect exposure to foreign exchange risk as it does not take into account off balance sheet items.

## CLYDESDALE BANK PLC

### Notes to the Financial Statements (continued)

#### 38. Employees

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

	<b>2005</b>	As restated
	<b>Number</b>	2004
		Number
Managers	<b>1,198</b>	1,150
Clerical staff	<b>4,978</b>	5,293
	<b><u>6,176</u></b>	<u>6,443</u>

All staff are contracted employees of NAGE. The numbers above disclose the staff remunerated directly by the Group but exclude employees working within other NAGE subsidiaries who provide support services to the Group.

#### 39. Ultimate parent undertaking

The ultimate parent undertaking, and ultimate controlling party is NAB, a company incorporated in the State of Victoria, Australia. This company also heads the largest group in which the results of the Group are consolidated. The smallest group in which the results of the Group are consolidated is that headed by NAGE which is incorporated and registered in England and Wales. Fellow subsidiaries are defined as entities who are also under the common control of NAGE, and therefore consolidated in to that entities consolidated results. National Europe Holdings (GB) Limited, a company incorporated in England, is the immediate holding company for the Bank.

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

# CLYDESDALE BANK PLC

## Risk Overview

### Management of risk

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

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

At NAB Group level, the NAB Group Risk Management function supports the UK region, executive management, and the CB Board through the creation of NAB Group-wide risk principles and policies, and provides aggregated reporting of risk issues, mitigation strategies, and policy changes to NAB Group Governance Committees and the NAB Board. In turn CB Risk Management prepares and submits to the executive management UK Risk Committee and to the CB Board of Directors (via the Boards Risk Committee and Audit Committee), various reports detailing the regional risk profile across a number of risk categories including operational risk, regulatory compliance, credit, strategic, balance sheet and market risk.

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

During the year, the Risk Management structure was aligned with the new operating model, new risk professionals recruited to fill many key positions, and a new risk leadership team was established. This renewed risk leadership team has brought significant global perspective to the design of the revised risk management framework and effective management of risk throughout the NAB Group.

As part of the restructure of the risk management framework, a new executive NAB Group Risk Management Committee has been created. This committee is comprised of key senior executives, including the NAB Group Chief Executive Officer and the CB Group Chief Executive Officer, and serves as the principal risk strategy and policy decision making body within the NAB Group.

This committee is supported by the following four sub-committees, each with a specialised focus:

- NAB Group Credit Risk Committee;
- NAB Group Market Risk Committee;
- NAB Group Operational Risk and Compliance Committee; and
- NAB Group Asset and Liability Committee.

Within the UK there is also a regional Risk Management Committee comprised of senior regional executives, which serves to provide a leadership focus on key risk issues from a regional perspective.

The Risk Committee of the NAB Board reviews in detail the NAB Group's risk appetite, and oversees the NAB Group's overall risk management framework. This committee focuses on key elements of risk, including regulatory compliance risk, operational risk, market risk, credit risk and balance sheet management. A consistent approach is taken at CB Group level through the CB Board Risk Committee.

## **CLYDESDALE BANK PLC**

### **Risk Overview (continued)**

#### ***Operational risk and compliance***

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

Compliance is the requirement to comply with external regulatory and legal obligations in addition to operating within NAB Group and regional policies and standards. This includes risk relating to reputational impact, incurring restrictive conditions and undertakings by regulators on how the NAB Group does business, or losing or having its licence suspended to deal or engage in certain activities. The NAB Group has placed significant focus on improving its operational risk management and compliance processes and systems.

An area of improvement has been the governance process supporting operational risk management, including, in particular, revisions to the Risk Committee structures and the reporting and escalation of issues. The NAB Group has formalised the operations of regional and Group Risk Committees, which report to the NAB and NAB Board Risk Committees.

Various reports are produced at management, sub-committee and NAB Board level to assist with their oversight obligations and monitoring and, where necessary, to drive appropriate actions. An enhanced, quarterly risk reporting process has recently been introduced where each business unit defines its 'top 10' risks and how it manages exposure to these risks. This process has generated greater visibility and understanding of the NAB Group's overall operational risk profile.

The Operational Risk and Control Framework ("ORCF") is based on a set of core principles and defines the NAB Group's standards for operational risk management and compliance. Its design recognises the importance of embedding operational risk and compliance into 'business-as-usual' activities. It has particular focus on defining and implementing the right behaviours and incorporating risk considerations into the Group's systems and processes and is a key component of the NAB Group's efforts to prepare for Basel II accreditation.

The ORCF includes:

- an established governance structure that is used to ensure consistent application, management and reporting of the operational risk management process. This element also includes the establishment and communication of the NAB Group's operational risk appetite;
- an essential element into the business strategy and also underpins all operational risk management activities; and
- a structured risk management process to facilitate the identification, quantification and management of risks.

The NAB Group is committed to sound risk management and compliance and is investing significantly in improving its capabilities in these areas.

#### ***Credit risk***

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

The management of credit risk within the NAB Group is achieved through both the traditional focuses on approval and monitoring of individual transactions and asset quality, analysis of the performance of the various credit risk portfolios and the independent oversight of credit portfolios across the Group. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends. Roles and responsibilities between NAB Group Portfolio Management & Policy and the regional Risk Management Teams are clearly defined.

Significant credit risk strategies and policies are approved, and reviewed annually, by the NAB Board, and the NAB Risk Committee. Through such policies the NAB Board establishes the NAB Group's tolerance for risk. These policies are delegated to, and disseminated under the guidance and control of, executive management within the UK.

The NAB Group's credit policies, which are subject to ongoing review, are documented and disseminated in a form that provides a consistent view of all major credit policies supporting the credit operations of the NAB Group.

For complex credit products and services, NAB Group Portfolio Management & Policy provides a policy framework that identifies and quantifies risks and establishes the means of mitigating such risks.

Single large exposure policies are in place within the NAB Group. Overall composition and quality of credit portfolio exposures are monitored and periodically reported to the NAB Board, and, where required, to the relevant regional supervisory authorities.

A key factor in the introduction of new products and services is the identification of credit risk inherent in such products and services. This is managed through a process requiring acceptance by all impacted areas of the business and approval by Risk Management Committees prior to implementation.

## CLYDESDALE BANK PLC

### Risk Overview (continued)

#### *Balance sheet market risk*

Balance sheet market risk includes liquidity and funding risk, structural interest rate risk and foreign exchange risk.

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

Policies, inclusive of risk appetite and limits, are approved by the NAB Board, with Group authority delegated to the NAB Group Asset and Liability Management Committee (Group ALCO) and CB Asset and Liability Management Committees (CB ALCOs) for their subsequent implementation and monitoring.

The management of balance sheet market risk in the UK resides with Group Treasury.

Risk oversight is the responsibility of the Group Non-Traded Market Risk team. This team was established in January 2005, to strengthen the risk governance framework via introducing standards of independence and control resilience consistent with traded market risk, with teams in place across the UK business.

CB Group ALCO meets monthly and reports to the CB Group Risk Management Committee and the CB Board Risk Committee.

#### *Liquidity and funding risk*

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, the payment of dividends and the ability to fund new and existing loan commitments.

Liquidity within the CB Group is managed in accordance with the regulatory requirements of the UK Financial Services Authority and with policies approved by the NAB Board, with oversight from CB Group ALCO and NAB Group ALCO.

To meet the requirements of local regulatory authorities the liquidity of the regional bank is managed on a daily basis as a stand-alone undertaking. CB Group ALCO delegates daily management responsibilities to the regional treasury operating divisions.

NAB Group policies are applied over and above the requirements of local regulatory authorities, when these supplement local regulatory policy. The combination of regulatory and NAB Group policy requirements results in liquidity being managed through a combination of positive cash flow management, the maintenance of portfolios of high quality liquid assets, and diversification of the funding base. NAB Group Policy uses liquidity scenarios to monitor both 'going concern' and 'name crisis' events. Cash flow mismatch limits have been established to limit the CB Group's liquidity exposure. In addition, regional banks are required to hold liquid asset portfolios to meet any unexpected cash flow requirement.

A three-level contingency plan has also been established for management of an escalated liquidity requirement where the CB Group experiences either restricted access to wholesale funding, or a large increase in the withdrawal of funds. The plan identifies triggers on each level, details the action required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to manage the action plan.

## **CLYDESDALE BANK PLC**

### **Risk Overview (continued)**

#### *Structural interest rate risk*

Structural interest rate risk comprises the sensitivity of the CB Group's current and future net interest income to movements in market interest rates.

These are three major contributors to interest rate risk:

- the investment on non-interest bearing deposits and equity into interest-bearing assets;
- the mismatch between repricing dates of interest-bearing assets and liabilities; and
- the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets.

Within the objective to secure stable and optimal net interest income over both a 12-month period and over the long term, mismatch risk can be minimised with the investment of equity and non-interest-bearing deposits targeting the stability of net interest income.

Interest rate risk is principally managed through the use of interest rate swaps and caps/floors. All products are used within approved mandates, with strategies subject to monthly reporting to NAB Group ALCO and CB Group ALCO.

Interest rate risk management across the NAB Group is directed by NAB Group Treasury, with execution on a UK business basis via CB Group Treasury. CB Group ALCO, via Risk Committee oversight, monitors risk to ensure it remains within approved policy and limits set by the NAB Board.

Basis risk is more difficult to manage, given limited market liquidity in basis risk products. To mitigate this risk, NAB Group Treasury and the NAB Group Non-Traded Market Risk team closely monitor pricing strategies, product innovation and marketing, since these play an important role in reducing the mismatch attributable to repricing characteristics of customer assets and liabilities.

As a further step in its commitment to strengthen the risk management and oversight framework, the NAB Group has introduced Value at Risk (VaR) as one of its principal measures for interest rate risk, along with an Earnings at Risk (EaR) measure that calculates the impact on future net interest income over the next 12 months. These limit measures are complemented by sensitivity and scenario analysis.

These improved risk measures and the independence of NAB Group Treasury and NAB Non-Traded Market Risk management structures have contributed to a more transparent interest rate risk management framework within NAB Board approved risk appetite and limits.

#### *Foreign exchange risk*

Real foreign exchange exposures arise independently of the accounting process. Such transaction exposures arise from the risk that future cash flows will be converted to Sterling at less favourable rates than at present. Such cash flows could result from the repatriation of profits or capital back to the Company. The policy of the NAB Group is to fully hedge these exposures at the time of commitment, if they are of a material nature. Such hedging of transaction exposures is assessed on a case-by-case basis.

The transactional currency exposures principally arise from dealings with customers and the CB Group maintains a matched position through transactions with the NAB Group.

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