



Clydesdale and Yorkshire Banks announce full year results 2007

**Full Year Results
Year ended 30 September 2007**

London, 9 November 2007: National Australia Bank Group, owner of the Clydesdale and Yorkshire Banks, today released full year results for its UK Region Operations, for the 12 months to 30 September 2007.

2007 Highlights: Comparison with 12 months to 30 September 2006

Profits

- Profit before tax* up 16.3% to £379m
- Cash earnings* up 16.2% to £266m
- Cash earnings, excluding fair value and ineffective hedging income, up 13.6% to £243m

Volume growth

- Average gross loans and acceptances increased 19.4% to £24.6bn
 - Business Lending increased by 25.7% to £12.4bn
 - Mortgage lending volumes increased by 19.1% to £10.1bn
- Average retail deposit balances increased 20.9% to £15.6bn

Performance

- Cost Income ratio improved to 58.4% from 61.1% - down 270 basis points in the year*
 - 60.1% from 62.2% in Sept 2006, excluding fair value and ineffective hedging income
- Cash earnings per average FTE increase by 20%, up £5k to £30k*
 - Up 12.5% (£3k) to £27k, excluding fair value and hedging income
- Retail cover ratio improved to 63.4% in the year
- Clydesdale Bank PLC's (CB) long-term credit rating was upgraded during the year to AA- by Standard & Poors and to Aa3 by Moodys

Lynne Peacock, Chief Executive, said:

"These results demonstrate our UK business is continuing to deliver strong and sustainable growth during turbulent market conditions.

"In addition to a good retail performance, business banking through our integrated Financial Solutions Centres continues to power ahead with income, lending and deposits all up by more than 20% year-on-year demonstrating that we've really brought the strategy to life. This growth has been supported by a conservative approach to risk, liquidity and funding.

"As well as strong volume growth, our business achieved a number of key milestones in the year including the convergence of the Yorkshire and Clydesdale back-office systems, the roll out of a new branch teller system and our inaugural mortgage securitisation of £3 billion."

* ***includes fair value and ineffective hedging income***

Chief Executive's Review

Strong & Sustainable Growth

Our UK operations have yet again delivered a year of strong and sustainable growth. Countering turbulent trading conditions, profit before tax increased by 16.3% to £379 million while post tax earnings rose by 16.2% to £266 million.

Excluding income from fair value and ineffective hedging, post tax earnings increased by 13.6% to £243 million.

Outperforming the market on balance sheet growth in key product segments, average lending volumes are up 19.4% year-on-year. Business lending volumes grew by 26% (£2.5bn) with our maturing Financial Solutions Centres generating strong organic growth. Mortgage lending has experienced volume growth of 19%.

Average UK Region deposit volumes grew 21% year-on-year primarily driven by the continued momentum in the Financial Solutions Centres and a good performance in the Retail network.

Integrated Financial Solutions (iFS) revenues continued to grow strongly at 24% year-on-year. Retail banking performed well in difficult market conditions with income up 1.2%. The results also contain reductions of 8% in cards and 11% in wealth management income as a result of continued restraint in unsecured lending and market pressure on payment protection insurance revenues.

Full-year comparative results contain £37 million in respect of Danske Bank A/S transitional services income and expenses. Excluding this effect, income grew 5% despite recent market volatility, while expenses grew at a below inflation rate. With significant investment continuing to be made in our business, this demonstrates excellent cost control.

Global market conditions arising from the effects of the US sub-prime mortgage crisis impacted in the last quarter. Increases in one-month LIBOR rates resulted in higher wholesale funding costs as well as impacting interest income through basis risk. Over a third (35%) of the year's basis risk impact of £23 million (£12 million in prior year) occurred in the last two months.

The net interest margin declined by 48 basis points over the year. The decline slowed in the second half (as margin approached market median) driven mainly by mix and basis risk.

As a result of Clydesdale Bank's presence in the UK, £64 million of income was generated by nabCapital UK during the year, up 33%. This includes £29 million (up 35%) of income introduced from iFS operations. These amounts appear in nabCapital's results.

Conservative and Diversified Funding

A retail cover ratio of 63.4% was achieved, up 70 basis points over the prior year. Additionally, the diversity of wholesale funding in both source and duration has further improved. External short term funding now equates to just 15% of total wholesale funds.

Further diversifying our funding capability, £3 billion of mortgages were securitised under a master trust structure in August 2007.

Reflecting our quality business growth, Clydesdale Bank PLC's long-term credit rating was upgraded during the year to AA- by Standard & Poors and to Aa3 by Moodys.

Enhanced Business Efficiency

Firm cost control is reflected in the cost-income ratio which has improved by 270 basis points and is down to 58.4% from 61.1% in the prior year.

Another key measure of improved efficiency is the cash earnings achieved for each full-time equivalent employee. Our UK operations made an additional £5,000 for every employee in the year – a significant increase of 20% to £30,000 each. Staff numbers remained stable notwithstanding a net increase of 229 people into iFS centres over the period as systems improvements and enhanced back office efficiency continue to bear fruit.

During the year investment continued in systems and processes with total cash investment spend of £103 million in the year, compared to £98 million in the previous year.

Infrastructure Investment & Delivery

A significant milestone was reached in the ongoing re-engineering of our UK business, with the successful convergence of our product-processing back-office systems in April. This programme completed the migration of Clydesdale Bank retail customer accounts onto a unified platform. Over 1.2 million customers (48% of the total Retail customer base) were transferred onto new systems and 6,000 staff trained in the new streamlined processes. Additionally, our product offerings have also been rationalised to provide customers with simpler and more beneficial products.

Our new Teller system, already operational in Yorkshire Bank, commenced roll-out across the Clydesdale Bank branch network during the year and was deployed at the end of October 2007. Further investment in our retail network includes the introduction of a new contemporary branch design which is being implemented on a phased basis.

The Faster Payments project is currently in testing with an industry go-live date of May 2008. Additionally, construction work on the new data centre is scheduled for completion in 2008.

Supporting the distribution network, the establishment of centres of excellence in back-office processing in Leeds and Clydebank is complete. Leeds provides support to business lending, collection services and card services, whilst Clydebank supports the retail branch back-office. Consolidation into two scalable centres has improved productivity, resource utilisation and working environments.

Sound Asset Quality

The strong asset quality of the UK region's housing portfolio with a Loan to Value of sub 70% ensures the portfolio is less exposed to external shocks than the market as a whole. The recent inaugural £3 billion securitisation issue, which secured a price just 1-2bps wide of a triple-A rating, further demonstrates the strong credit quality of our portfolio, particularly when compared to similar 100% prime residential transactions within a comparable issuance window. In addition, the significant volume growth our business portfolio has been achieved with strong asset quality and a broad geographical and industry sector spread.

Employee and Community Commitment

Our commitment to being an employer of choice continues and, from 1 October 2007, new flatter structures, flexible working arrangements and remuneration based on role and performance rather than employees' grades were introduced. Other activities over the past 12 months include the introduction of new leadership programmes, expanded talent initiatives and a mentoring programme for emerging female leaders. A new development programme for middle-managers was launched during the year and in addition, 436 employees completed Lean Sigma awareness training helping them to identify efficiency improvements in processes.

The business also continues to invest in the communities in which it operates. The launch of two high profile sponsorships - Scottish Premier League football and the National Trust – continue to help promote the brands while engaging employees and customers. Our charity partnership with the British Heart Foundation continues to be a success, raising over £450,000 and a payroll giving programme, launched in May 2006, now has 11% of staff participating.

In support of the Carbon Neutral commitment, all energy is now purchased from Climate Levy Exempt sources. Smart Boxes are also being rolled out across the property network to identify opportunities to reduce energy consumption.

External Recognition

Customer acquisition rates increased 7.4% in the year, and in addition, the success of our investment and service commitment has been recognised in numerous prestigious awards.

These include:

- Yorkshire Bank was named best business bank in the UK by the Forum of Private Business. Clydesdale Bank was best business bank in Scotland.
- Our People & Culture team was awarded the ASA Human Resources Excellence Award 2007 by the Chartered Institute of Personnel & Development, recognising the business' employee development programme.
- The Times newspaper recognised National Australia Group Europe as one of the 'top 50 places women want to work'.
- The Bank's Contact Centre in Clydebank was named 'World Contact Centre of the Year' in the prestigious Contact Centre World Awards, beating more than 1,000 entrants.

Business Environment

We operate a traditional banking business in the UK with a strong service-led focus and a balanced approach to risk. Well-funded, balanced and diversified, our strong liquidity position has been strengthened by prudent management decisions in recent years. Our UK operations have been built on strong foundations and continue to make significant progress.

Lynne Peacock
Chief Executive

Financial Highlights (year to 30 September 2007)

Both income and expenses were impacted by £37 million of transitional service agreement income and costs in support of Danske Bank A/S in FY 06. The transitional arrangements have ceased, driving large variances in the year-on-year comparatives.

Cash earnings increased by 16.2% to £266 million in the year reflecting continued progress in delivering strong and sustainable results. Excluding fair value and hedging ineffectiveness, cash earnings rose 13.6% to £243 million in the year.

Average gross loans and acceptances increased 19.4% in the year. Business lending volumes grew by 25.7% with the maturing Financial Solutions Centres generating strong organic growth. Mortgage lending saw volume growth of 19%. The Retail network successfully increased overall lending by 2% through growth in secured lending at the expense of unsecured.

Average retail deposit volumes grew 20.9% primarily driven by the continued momentum in the Financial Solutions Centres and a robust performance in the Retail network. The retail cover ratio improved to 63.4% during FY 07 (up 70bps).

Net interest income increased 5.7% mainly driven by the significant portfolio growth, offset by margin, mix and rates impacts as noted below.

The net interest margin decreased 48 basis points to 3.06%. Basis risk movements on lending and deposit portfolios have depressed the margin by 4bps in the year. Recent market turbulence has also increased the cost of wholesale funding. Product mix changes toward secured lending and the disproportionate growth in offset mortgages have further depressed net interest margin.

Other operating income increased 4.4% after adjusting for the impact of Danske Bank A/S transitional service income in the prior year (£37 million, offset by decreased operating expenses). Without adjustment, other operating income decreased 4.7%. Income from derivatives generated through management of interest rate risk positions on the balance sheet has increased by £8 million; fee income has increased by £7 million as a result of increasing volumes and changing fee structures; and the ongoing ATM/POS support contract with Danske Bank A/S has driven an additional £5 million. These increases have been partially offset by a £6 million reduction from the sale proceeds of the Private Client Solutions business received in the 2006 year and a £10 million reduction in profit share income from Wealth Management activities.

Operating expenses have increased 2.4%, after adjusting for Danske Bank A/S transitional service expense in the prior year (£37 million, offset by decreased other operating income). Without adjustment, operating expenses decreased 2.7%. UK Growth Programme costs have increased by £40 million reflecting the recruitment and ongoing costs of staffing the Financial Solutions Centres, the full year effect of property associated costs and an additional £9 million of depreciation as a result of investment spend in the prior year. Incremental savings from the restructuring initiatives provided for in March 2005 were £42 million and included employee savings, occupancy cost savings and contract and service renegotiation savings.

The cost to income ratio improved by 270 basis points over the year to 58.4%. Excluding fair value and hedging income, this is a 210 basis point improvement to 60.1% from 62.2%.

Charges for doubtful debts reduced 7.0% in the year. The shift to secured lending, stable asset quality, improved arrears management and tighter lending criteria offset lending volume growth.

The result of the ongoing Office of Fair Trading investigation and the test case which is seeking to clarify the legal position of bank charges continue to cause uncertainty. There is a charge of £11 million in the year in respect of settlement of claims, costs incurred to date and provision for future quantifiable administrative costs. This has been offset by a one-off provision release and an insurance recovery on bank note reissue costs relating to the Irish banks sold in 2005, providing £12 million benefit in the year.

UK Results - Including fair value volatility and hedge ineffectiveness

UK Results	Year to			Half Year to		
	Sep 07 £m	Sep 06 £m	Sep 07 v Sep 06 %	Sep 07 £m	Mar 07 £m	Sep 07 v Mar 07 %
Profit & Loss (£m)						
Net interest income	813	769	5.7	413	400	3.3
Other operating income –Cash earnings	369	403	(8.4)	183	186	(1.6)
Other operating income – Fair value & ineffective hedging income	35	21	66.7	17	18	(5.6)
Net operating income	1,217	1,193	2.0	613	604	1.5
Operating expenses	(719)	(739)	2.7	(361)	(358)	(0.8)
Underlying profit	498	454	9.7	252	246	2.4
Charge for bad and doubtful debts	(119)	(128)	7.0	(57)	(62)	8.1
Cash earnings before tax	379	326	16.3	195	184	6.0
Income tax expense	(113)	(97)	(16.5)	(59)	(54)	(9.3)
Cash earnings inc fair value & hedging income	266	229	16.2	136	130	4.6
Average Volumes (£bn)						
Gross loans & acceptances	24.6	20.6	19.4	25.8	23.4	10.3
Interest earning assets	26.6	21.7	22.6	27.8	25.4	9.4
Total assets	29.7	24.4	21.7	31.4	28.1	11.7
Retail deposits	15.6	12.9	20.9	16.2	14.9	8.7

Performance measures	Year to		Half Year to		Year to		Half Year to	
	Sep 07	Sep 06	Sep 07	Mar 07	Sep 07	Sep 06	Sep 07	Mar 07
Cash earnings on average assets	0.91%	0.94%	0.87%	0.95%	58.4%	61.1%	58.2%	58.6%
Net interest margin	3.06%	3.54%	2.96%	3.16%	£30k	£25k	£30k	£29k
					8,850	8,822	8,850	9,046

About the National Australia Bank Group

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

For more information

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UK Results - Excluding fair value volatility and hedge ineffectiveness

Important Note

The figures quoted in the table below are an overview of the UK results excluding fair value and hedge ineffectiveness. While not commonly used by UK companies, this treatment is more consistently aligned with the approach of most major banks in the Australian market.

The Group has changed its definition of Cash Earnings to exclude amounts attributable to hedge ineffectiveness and fair value movements of derivatives and underlying assets and liabilities designated under the accounting Fair Value Option (FVO) that is available under Australian equivalents to International Financial Reporting Standards (AIFRS).

“Fair Value” is the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The exclusion of hedge ineffectiveness and fair value movements from Cash Earnings provides a standardised indicator of underlying business performance. This is because period on period cash earnings volatility does not always directly correlate to the underlying economics of a transaction or portfolio when viewed over its life.

While excluded from Cash Earnings the Group will continue to actively monitor and manage the effect of hedge accounting and fair value assets and liabilities on its business.

UK Results	Year to			Half Year to		
	Sep 07 £m	Sep 06 £m	Sep 07 v Sep 06 %	Sep 07 £m	Mar 07 £m	Sep 07 v Mar 07 %
Profit & Loss (£m)						
Net interest income	813	769	5.7	413	400	3.3
Other operating income – Cash earnings	369	403	(8.4)	183	186	(1.6)
Net operating income	1,182	1,172	0.9	596	586	1.7
Operating expenses	(719)	(739)	2.7	(361)	(358)	(0.8)
Underlying profit	463	433	6.9	235	228	3.1
Charge for bad and doubtful debts	(119)	(128)	7.0	(57)	(62)	8.1
Cash earnings before tax	344	305	12.8	178	166	7.2
Income tax expense	(101)	(91)	(11.0)	(53)	(48)	(10.4)
Cash earnings	243	214	13.6	125	118	5.9
Average Volumes (£bn)						
Gross loans & acceptances	24.6	20.6	19.4	25.8	23.4	10.3
Interest earning assets	26.6	21.7	22.6	27.8	25.4	9.4
Total assets	29.7	24.4	21.7	31.4	28.1	11.7
Retail deposits	15.6	12.9	20.9	16.2	14.9	8.7

Performance measures	Year to		Half Year to			Year to		Half Year to	
	Sep 07	Sep 06	Sep 07	Mar 07		Sep 07	Sep 06	Sep 07	Mar 07
Cash earnings on average assets	0.82%	0.88%	0.79%	0.84%	Cost to income	60.1%	62.2%	59.9%	60.3%
Net interest margin	3.06%	3.54%	2.96%	3.16%	Cash earnings per average FTE	£27k	£24k	£28k	£26k