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FULL YEAR RESULTS
Clydesdale and Yorkshire Banks

PERFORMANCE IMPROVES AS STRATEGIC REVIEW COMPLETED AHEAD OF SCHEDULE

National Australia Bank, owner of Clydesdale and Yorkshire Banks, today released results for its UK Banking(1) operations for the 12 months to 30 September 2013. Unless otherwise stated, figures are comparisons with the 12 months to 30 September 2012. Prior year comparative numbers include the now transferred Commercial Real Estate business.

David Thorburn, Chief Executive, said:

"The restructuring of our business over the past 18 months has been substantially completed a year ahead of schedule. This, along with the more stable economic environment, helped in recording pre-tax cash earnings of £127 million in the year.

"Lower charges to provide for bad and doubtful debts were instrumental in this falling by £473 million to £158 million in the year. This was driven by lower business lending losses, reflecting improved asset quality, and the successful transfer of the commercial real estate portfolio to NAB at the beginning of the period.

"The positive impact of our strategy is clear to see in the underlying business performance. However, conduct related matters have impacted our performance and I fully recognise that our recovery won't be complete until we've concluded them. We have learned lessons from this.

"We're building a different bank today with a clear customer focus. While the reshaping is largely done, there's more work to do as we build a sustainable future for our business."

Performance Highlights

- **Pre-tax cash earnings(2) of £127 million, up from a loss of £183 million**
- **Underlying profits(2) of £285 million**
- **Charge to provide for bad and doubtful debts down £473 million to £158 million**
- **Stronger, smaller balance sheet; asset quality measures improving**
- **Planned 1,400 role reduction completed ahead of schedule**
- **Mortgage growth of 7.5% - ahead of mortgage market growth at 1.1%**
- **£46 million underlying cost benefit primarily due to restructuring activities**
- **Significant investment in regulatory compliance and customer improvements**
- **Tier 1 ratio of 12.0% and Core Tier 1 of 10.5%**

Clydesdale Bank Yorkshire Bank

The outcomes of the Strategic Review announced in April 2012 have been substantially completed a year ahead of schedule. The associated restructuring benefits and the transfer of the commercial real estate (CRE) portfolio to National Australia Bank Limited helped drive pre-tax cash earnings[(2)] of £127 million compared to a loss of £183 million in the prior year. Cash earnings were £96 million compared to a loss of £139 million while underlying profits[(2)] were £285 million in the year.

The charge to provide for bad and doubtful debts fell by £473 million to £158 million. This was primarily driven by the transfer of the CRE portfolio, together with stabilising asset quality in business lending, continued stable mortgage loss rates and improving unsecured retail lending losses.

Early delivery of key planned efficiency initiatives helped reduce underlying expenses by £46 million (6.6%). The bank continues to invest significantly to support regulatory compliance and customer improvements with the clear aim of building a better bank. This included the launch of a mobile banking service, competitive new current account, loan and mortgage products, an enhanced account switching service and supporting the business bank in the year.

The restructuring activity, which has simplified the business model to focus on traditional retail and SME banking strengths, has improved the balance sheet structure and funding position of the Bank. At September 2013, Clydesdale Bank plc's Tier 1 capital ratio was 12.0% (up from 9.6%). Its Core Tier 1 ratio was 10.5% (up from 8.4%).

Strong support for mortgage customers continued in the year with mortgage growth increasing 7.5% - higher than system growth of 1.1% (Bank of England, August 2013). Despite mortgage growth, average gross loans and acceptances decreased by £6.5 billion to £27.1 billion. This was primarily due to the £5.6 billion CRE asset transfer while underlying business lending fell by £1.8 billion in line with negative system credit growth. The unsecured personal lending book remained stable at £1.3 billion.

Retail customer deposit levels continue to be carefully aligned with lending opportunity and were actively rebalanced to £24.6 billion (down 2.8%) following the CRE transfer. Net interest margins improved over the year to 2.12% (from 2.03%) as a result of an improved retail deposit mix and higher lending margins.

The UK economy and legacy conduct related matters continue to negatively affect performance, offsetting the benefits of restructuring and the revised strategy. Overall operating expenses increased by £4 million (0.6%) as a result of conduct costs with £50 million of additional provisions raised in the year including a previously announced mortgage payment systems error which came to light in April 2009.

In line with the industry, the PPI provision has been increased by £130 million to £152 million and remains under review. This has been accounted for in non-cash earnings and applied consistent with previous increases.

	Year to			Half Year to		
	Sep 13 £m	Sep 12 £m	Sep 13 v Sep 12 %	Sep 13 £m	Mar 13 £m	Sep 13 v Mar 13 %
Net interest income	**751**	864	(13.1)	**383**	368	4.1
Other operating income	**235**	281	(16.4)	**113**	122	(7.4)
Net operating income	**986**	1,145	(13.9)	**496**	490	1.2
Operating expenses	**(701)**	(697)	(0.6)	**(356)**	(345)	(3.2)
Underlying profit	**285**	448	(36.4)	**140**	145	(3.4)
Charge to provide for bad and doubtful debts	**(158)**	(631)	75.0	**(67)**	(91)	26.4
Cash earnings before tax	**127**	(183)	large	**73**	54	35.2
Income tax expense	**(31)**	44	large	**(18)**	(13)	(38.5)
Cash earnings	**96**	(139)	large	**55**	41	34.1
Average Volumes (£bn)						
Gross loans and acceptances	**27.1**	33.6	(19.3)	**26.7**	27.4	(2.6)
Interest earning assets	**35.4**	42.5	(16.7)	**34.9**	35.9	(2.8)
Total assets	**38.1**	45.6	(16.4)	**37.3**	39.0	(4.4)
Customer deposits	**24.6**	25.3	(2.8)	**24.1**	25.0	(3.6)
Capital (£bn)						
Risk-weighted assets - credit risk (spot)	**19.8**	27.2	(27.2)	**19.8**	20.8	(4.8)
Total risk-weighted assets (spot)	**24.5**	30.2	(18.9)	**24.5**	25.5	(3.9)
Performance Measures						
Cash earnings on average assets	**0.25%**	(0.30%)	55 bps	**0.29%**	0.21%	8 bps
Cash earnings on risk-weighted assets	**0.37%**	(0.44%)	81 bps	**0.44%**	0.30%	14 bps
Net interest margin	**2.12%**	2.03%	9 bps	**2.19%**	2.06%	13 bps
Cost to income ratio	**71.1%**	60.9%	(1,020 bps)	**71.8%**	70.4%	(140 bps)
'Jaws'	**(14.5%)**	(5.1%)	(940 bps)	**(2.0%)**	(10.3%)	830 bps
Cash earnings per average FTE (£'000s)	**13**	(17)	large	**16**	11	45.5
FTEs (spot)	**7,013**	7,883	11.0	**7,013**	7,150	1.9

Notes for editors

(1) The results above are for NAB UK Banking and not those of Clydesdale Bank PLC. UK Banking consists of banking and wealth management activities in the UK operating under the Clydesdale Bank and Yorkshire Bank brands. It does not include NAB's wholesale banking operations in the UK.

(2) Unless otherwise stated, information in this document is presented on a cash earnings basis. "Cash earnings" is a key non-GAAP financial performance measure used by NAB. "Cash earnings" are calculated by excluding certain items which are otherwise included within the calculation of net profit attributable to owners of the company, in order to better reflect what NAB considers to be the underlying performance of the Group. Cash earnings exclude fair value and hedge ineffectiveness income/expense and significant items including PPI redress. A full definition is set out in the NAB Profit Announcement under Glossary of Terms.

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