

FULL YEAR RESULTS
Clydesdale and Yorkshire Banks

**WELL POSITIONED FOR GROWTH AS PERFORMANCE
IMPROVEMENT CONTINUES**

National Australia Bank, owner of Clydesdale and Yorkshire Banks, today released results for its UK Banking⁽¹⁾ operations for the twelve months to 30 September 2014. Unless otherwise stated, figures are comparisons with the twelve months to 30 September 2013.

David Thorburn, Chief Executive, said:

“Against a backdrop of continued underlying performance improvement and a strengthened UK economy, we’re now well positioned for sustainable growth over the medium term.

“We’ve made good progress in the past year in sharpening the competitiveness of our products, introducing customer service enhancements and improving the efficiency of our operations. In addition, we have undertaken extensive programmes to address legacy conduct issues and ensure fairness for our customers is at the heart of everything we do.

“Clydesdale and Yorkshire Banks are strong brands with good market shares in the communities in which we operate. Our focus continues to be building on our core strengths in personal and business banking and the pace of change is accelerating as we drive further improvements to products, delivery channels, the experience and quality of service we offer our customers, and operational efficiency.

“In particular, additional investment is underway to enhance our current account products and expand our mobile banking service for personal and business customers as well as further improve our mortgage service. The year ahead will see us step up a gear in our drive to deliver sustainable growth through a clear focus on providing a great customer experience, innovative products and strong support for the communities we serve.”

Highlights

- **Pre-tax cash earnings⁽²⁾ of £203 million, up 90% from £107 million**
- **Cash earnings of £158 million, up 98% from £80 million**
- **Underlying profits⁽²⁾ of £283 million, up 7% (£18 million)**
- **Charge for bad and doubtful debts down £78 million (49%) to £80 million**
- **£1.5 billion mortgage growth (10%)**
- **Operating expenses reduced by £35 million (down 5%)**
- **Common Equity Tier 1 ratio of 12.2%, up from 10.5%**

Clearly demonstrating benefits from the restructuring of the business and the improved UK economy, pre-tax cash earnings⁽²⁾ of £203 million were achieved compared to £107 million in the prior corresponding period. Cash earnings were £158 million compared to £80 million. The underlying picture is also one of improvement with underlying profits⁽²⁾ of £283 million in the year, up 6.8%.

The charge to provide for bad and doubtful debts fell by 49.4% or £78 million to £80 million, reflecting a more stable UK economy as well as the steps taken by management to improve underlying asset quality.

While costs associated with legacy conduct issues continue to have an impact on expenses along with increased project investment and marketing costs to support customer acquisition, benefits from the efficiency initiatives helped to reduce operating expenses by £35 million (4.9%).

The bank continues to invest significantly to support customer improvements as part of our aim to build a better bank. This includes investment in new and competitive products for personal and SME customers, the further expansion of our mobile banking capability, improvements to our internet banking service and enhanced direct business banking services.

At 30 September 2014, Clydesdale Bank PLC's Common Equity Tier 1 ratio was 12.2% (up from 10.5%).

As a result of high balance sheet capacity, given the solid funding base and strong capital position, continued mortgage growth of 9.6% was achieved. Average gross loans and acceptances fell 1.1% to £26.8 billion primarily due to subdued demand for business lending, risk appetite management and the impact of previous business restructuring. A number of initiatives have been launched in recent months to provide additional lending support for growing businesses over the next three years.

The bank continues to be strongly customer deposit funded allowing retail customer deposit levels to be efficiently managed in line with lending opportunity. As a result, average deposit volumes were actively reduced to £23.4 billion (down 4.9%). This reflects the managed rebalancing of the retail deposit book, with a reduction in higher cost term deposits partially offset by growth in current and savings accounts. Net interest margins improved in the year to 2.22% (from 2.12%) primarily as a result of an improved retail deposit mix and reduction in low yielding liquid assets.

While no new material conduct issues have emerged since the interim results in May, the impact of legacy conduct related matters continued to have a negative impact with conduct provisions booked in the NAB Corporate Centre and not UK cash earnings. As announced on 9 October, additional provisions of £420 million were raised in the year. Payment Protection Insurance (PPI) provision balances stood at £515 million at 30 September 2014. Consistent with all previous PPI provisions, this is not included within UK Banking but will be applied to Clydesdale Bank PLC and impact its results.

UK Banking

	Year to			Half Year to		
	Sep 14 £m	Sep 13 £m	Sep 14 v Sep 13 %	Sep 14 £m	Mar 14 £m	Sep 14 v Mar 14 %
Net interest income	759	751	1.1	379	380	(0.3)
Other operating income	210	235	(10.6)	105	105	-
Net operating income	969	986	(1.7)	484	485	(0.2)
Operating expenses	(686)	(721)	4.9	(345)	(341)	(1.2)
Underlying profit	283	265	6.8	139	144	(3.5)
Charge to provide for bad and doubtful debts	(80)	(158)	49.4	(25)	(55)	54.5
Cash earnings before tax	203	107	89.7	114	89	28.1
Income tax expense	(45)	(27)	(66.7)	(29)	(16)	(81.3)
Cash earnings	158	80	97.5	85	73	16.4
Average Volumes (£bn)						
Gross loans and acceptances	26.8	27.1	(1.1)	27.1	26.7	1.5
Interest earning assets	34.2	35.4	(3.4)	34.6	33.9	2.1
Total assets	37.1	38.1	(2.6)	37.8	36.3	4.1
Customer deposits	23.4	24.6	(4.9)	23.7	23.3	1.7
Capital (£bn)						
Risk-weighted assets - credit risk (spot)	18.7	19.8	(5.6)	18.7	19.2	(2.6)
Total risk-weighted assets (spot)	23.5	24.5	(4.1)	23.5	24.1	(2.5)
Performance Measures						
Cash earnings on average assets	0.43%	0.21%	22 bps	0.45%	0.40%	5 bps
Cash earnings on risk-weighted assets	0.66%	0.31%	35 bps	0.71%	0.60%	11 bps
Net interest margin	2.22%	2.12%	10 bps	2.18%	2.25%	(7 bps)
Cost to income ratio	70.8%	73.1%	230 bps	71.3%	70.3%	(100 bps)
'Jaws'	3.2%	(5.1%)	830 bps	(1.4%)	4.6%	(600 bps)
Cash earnings per average FTE (£'000s)	22	11	100.0	23	21	9.5
FTEs (spot)	7,278	7,013	(3.8)	7,278	7,103	(2.5)

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. UK Banking 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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