

MEDIA RELEASE

INTERIM RESULTS Clydesdale and Yorkshire Banks ⁽¹⁾

ON TRACK WITH STRATEGIC REVIEW

9 May 2013: National Australia Bank Ltd (NAB), owner of Clydesdale and Yorkshire Banks, today released results for its UK Banking ⁽¹⁾ operations for the six months to 31 March 2013. Unless otherwise stated, figures are comparisons with the six months to 31 March 2012.

David Thorburn, Chief Executive, said:

“Good progress has been made in delivering the key outcomes of the strategic review announced last April. Our strategy to become a stronger and more competitive business is proving to be the right one and, while there is more work to be done, there has already been a significant transformation of our business.

“Our pre-tax cash earnings were £54 million in the half following the successful transfer of £5.6 billion of commercial real estate assets to our parent in October. In addition, this significant step helped deliver a £191 million improvement in our bad and doubtful debt charge which fell to £91 million.

“Simplifying our business model to concentrate on our traditional strengths, we have successfully reshaped the geography, risk appetite and the composition of business banking. Our support for mortgage customers has also continued with over 9% growth in average mortgage lending balances.

“While conditions remain challenging, we are in good shape for the future as a strong customer-focussed bank for the communities in which we operate. This is underpinned by a smaller and stronger balance sheet, with a significantly improved funding and capital position. Over 90% customer-funded, Clydesdale’s Tier 1 capital ratio has improved significantly to stand at 11.8%.”

Business Performance

- Pre-tax cash earnings⁽²⁾ of £54 million (up £92m from £38m loss)
- Charge to provide for bad and doubtful debts down £191 million to £91 million
- Clydesdale Bank is over 90% customer funded with a Tier 1 capital ratio of 11.8%
- Over 70% of the way towards the planned 1,400 role reductions by September 2015

The charge to provide for bad and doubtful debts decreased significantly by £191 million to £91 million. This predominantly reflects the positive impact of the successful commercial real estate (CRE) portfolio transfer. Comprising of assets with balances before provisions of £5.6 billion, this portfolio was transferred to NAB Ltd on 5 October 2012.

Average mortgage lending balance growth of £1.3 billion or 9.1% was well above system growth of 1.5% (Bank of England, March 2013) in the half. Nevertheless, average gross loans and acceptances decreased by £6.3 billion to £27.4 billion. There was a £7.4 billion reduction in average business lending balances largely reflecting the CRE portfolio transfer of £5.6 billion. SME business lending also fell reflecting negative system growth.

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Average retail customer deposits were broadly maintained at £25 billion (down 0.4%) in a highly competitive market. Deposit levels continue to be carefully balanced with lending opportunity.

Operating expenses were broadly flat (down £3 million or 0.9%), as benefits from restructuring activities were offset by an increase in the provision for customer redress. Nevertheless, lower income, impacted by the economic environment and the transfer of the CRE portfolio, saw the cost to income ratio increase to 70.4% (from 58.8%).

At March 2013, Clydesdale Bank PLC's Tier 1 capital ratio was 11.8% (from 9.6%) with a Core Tier 1 ratio of 10.4% (from 8.4%) in September 2012. This was predominantly due to the positive impact of the commercial real estate portfolio transfer and the subsequent reduction in risk weighted assets.

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. A full definition is set out in the NAB Profit Announcement under Glossary of Terms.

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