

INTERIM RESULTS
Clydesdale and Yorkshire Banks

**GOOD PROGRESS AS PERFORMANCE
CONTINUES TO IMPROVE**

National Australia Bank, owner of Clydesdale and Yorkshire Banks, today released results for its UK Banking⁽¹⁾ operations for the six months to 31 March 2014. Unless otherwise stated, figures are comparisons with the six months to 31 March 2013.

David Thorburn, Chief Executive, said:

“We’ve continued to make good progress in the six month period to 31 March, more than doubling pre-tax cash earnings to £89 million, reducing charges to provide for bad and doubtful debts by 40% and increasing our lending to homebuyers by £1.4 billion.

“This is an encouraging picture, and we remain determined to make further progress in our support for customers. As a result, we’re actively putting a number of important building blocks in place.

“A key example is the appointment of one of our most experienced executives, Debbie Crosbie, as an Executive Director to lead our new cross-business Customer Trust & Confidence initiative. Launched in January, this work is dedicated to ensuring fairness for customers in everything we do and underlines the strength of our customer commitment.

“We’re also making a significant investment in customer service improvements and there’s a great deal of positive change underway. This ranges from having doubled the number of branches open on Saturdays, to running over 200 events across the country providing advice and support to businesses. Later this year we’re extending Post Office access to all customers and providing full mobile phone payment capability via Paym. We’re committed to building a better bank for our customers. I recognise there’s a great deal more to do but I firmly believe we’re on the right track.”

Highlights

- **Pre-tax cash earnings⁽²⁾ of £89 million, more than doubled from £44 million**
- **Cash earnings of £73 million, up from £33 million**
- **Underlying profits⁽²⁾ of £144 million, up 6.7% (£9 million)**
- **Charge to provide for bad and doubtful debts down 39.6% to £55 million**
- **£1.4 billion mortgage growth (8.9%) against relatively flat mortgage market**
- **Operating expenses reduced by £14 million (down 3.9%)**
- **Executive Director appointed to lead Customer Trust & Confidence initiative**
- **Common Equity Tier 1 ratio of 13.4%, up from 10.4%**

Demonstrating continued progress with our transformation programme, pre-tax cash earnings⁽²⁾ of £89 million were achieved compared to £44 million in the prior corresponding period. Cash earnings were £73 million compared to £33 million, while underlying profits⁽²⁾ were £144 million in the half, up 6.7%.

The charge to provide for bad and doubtful debts fell by 39.6% or £36 million to £55 million, reflecting the economic recovery in the UK and steps taken to improve underlying asset quality.

Benefits from efficiency initiatives and lower charges for legacy conduct matters helped to reduce operating expenses by £14 million (3.9%).

The bank continues to invest significantly to support customer improvements as part of our aim to build a better bank. This included the further expansion of our mobile banking capability with text alerts, improvements to our internet banking service and enhanced direct business banking.

At 31 March 2014, the further strengthening of the capital position was demonstrated by Clydesdale Bank PLC's Common Equity Tier 1 ratio which was 13.4% (up from 10.4%).

Continued strong support for mortgage customers attracted mortgage growth of 8.9% - considerably higher than system growth which was relatively flat in the period (Bank of England, March 2014). Despite continued mortgage growth, average gross loans and acceptances fell 2.6% to £26.7 billion. This was primarily due to subdued demand for business lending, risk appetite management and the impact of business restructuring. With the restructuring largely completed, business lending is now well positioned for future growth.

The bank remains 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 rebalanced and reduced to £23.3 billion (down 6.8%). Net interest margins continued to improve in the half to 2.25% (from 2.06%) primarily as a result of an improved retail deposit mix and reduction in low yielding liquid assets.

The impact of legacy conduct related matters continued to negatively impact on performance, with additional provisions of £13 million raised in the half. Payment Protection Insurance (PPI) provision balances stood at £126 million at 31 March 2014 (£152 million at 30 September 2013), with no additional provisions raised in the half. While complaint volumes are down by 49% on the prior corresponding period and down 16% on the prior half, the rate of reduction is slower and more volatile than anticipated. We continue to work with the FCA to ensure we have a robust complaints process which delivers the best outcomes for customers. We expect to revisit a significant number of complaints as part of this commitment. Provision levels remain under review and are subject to a number of significant inherent risks and uncertainties.

UK Banking

	Half Year to			Mar 14 v Sep 13 %	Mar 14 v Mar 13 %
	Mar 14 £m	Sep 13 £m	Mar 13 £m		
Net interest income	380	383	368	(0.8)	3.3
Other operating income	105	113	122	(7.1)	(13.9)
Net operating income	485	496	490	(2.2)	(1.0)
Operating expenses	(341)	(366)	(355)	6.8	3.9
Underlying profit	144	130	135	10.8	6.7
Charge to provide for bad and doubtful debts	(55)	(67)	(91)	17.9	39.6
Cash earnings before tax	89	63	44	41.3	large
Income tax expense	(16)	(16)	(11)	-	(45.5)
Cash earnings	73	47	33	55.3	large
Average Volumes (£bn)					
Gross loans and acceptances	26.7	26.7	27.4	-	(2.6)
Interest earning assets	33.9	34.9	35.9	(2.9)	(5.6)
Total assets	36.3	37.3	39.0	(2.7)	(6.9)
Customer deposits	23.3	24.1	25.0	(3.3)	(6.8)
Capital (£bn)					
Risk-weighted assets - credit risk (spot)	19.2	19.8	20.8	(3.0)	(7.7)
Total risk-weighted assets (spot)	24.1	24.5	25.5	(1.6)	(5.5)
Performance Measures					
Cash earnings on average assets	0.40%	0.25%	0.17%	15 bps	23 bps
Cash earnings on risk-weighted assets	0.60%	0.38%	0.23%	22 bps	37 bps
Net interest margin	2.25%	2.19%	2.06%	6 bps	19 bps
Cost to income ratio	70.3%	73.8%	72.4%	350 bps	210 bps
'Jaws'	4.6%	(1.9%)	n/a	large	n/a
Cash earnings per average FTE (\$'000s)	21	13	9	61.5	large
FTEs (spot)	7,103	7,013	7,150	(1.3)	0.7
Distribution					
Number of retail branches	322	323	330		
Number of ATMs	859	838	860		
Number of internet banking customers (no. '000s)	701	657	634		

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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