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Clear Strategic Progress and Positive Underlying Performance

National Australia Bank (NAB), owner of Clydesdale and Yorkshire Banks, today releases full year results for its UK Banking[1] operations for the financial year ended 30 September 2015.

Highlights

- Encouraging growth in underlying business, while asset quality continues to improve. As at 30 September 2015:
  - Customer lending up £1.1bn or 4% to £28.7bn year-on-year[2]
  - Customer deposits up £2.5bn or 10.3 % to £26.3bn year-on-year[2]
  - Common Equity Tier 1 ratio of 13.2%, up from 9.4% in 2014
  - Bad and doubtful debt charges have halved to £38m
  - Reported cash earnings of £156m (2014: £158m)
- Continued progress towards proposed demerger and Initial Public Offering (IPO) in February 2016[3].

David Duffy, CEO, commented:

“These are positive results that demonstrate the work we are doing to build a better bank for customers and to position ourselves for an independent and successful future.

“Our continued investment in our products and services for our customers is having a positive impact, helping us to grow deposits and increase lending to customers. Going forward we are investing in our digital capability to offer customers greater convenience and an improved customer experience.

“Our balance sheet is robust, with improved asset quality and stronger capital ratios. We are challenging the way we have worked historically, questioning the commercial viability of everything we do and creating more agile working practices.

“By keeping our focus on how and what we deliver for customers we have created a strong platform on which to build an exciting future for us as an independent bank. In doing that, I believe we have the ability to offer our customers an attractive alternative to the status quo of banking in the UK.”

1 Unless otherwise stated, the results are for NAB UK Banking and not those of Clydesdale Bank PLC or CYBG. 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 Spot balances
3 The proposed demerger and IPO of a newly formed holding company of the Clydesdale Bank PLC group ("CYBG plc" or "CYBG) remains subject to a range of matters including regulatory approvals and NAB shareholder approval.

Demerger and IPO

- Intention to demerge and IPO in early February 2016, full timetable to be published in due course.
- Significant progress has been made on the proposed transaction, including advanced engagement with key regulators and listing authorities in both jurisdictions.
- The intention is to pursue a demerger of approximately 75% of CYBG shares to existing NAB shareholders and sale of the balance of CYBG shares by way of an IPO (up to approximately 25%) to institutional investors.
- CYBG is well positioned to be demerged to NAB shareholders and sold to investors as a stand-alone retail and business bank with strong market shares across its core regions in the UK.
- It is proposed that CYBG will have a primary listing on the London Stock Exchange (LSE) and an Australian Securities Exchange (ASX) listing through fully fungible CHESS Depositary Interests (CDIs):
    - CDIs to qualify for ASX100 inclusion at time of demerger.
    - Both CYBG shares and CDIs to qualify for FTSE 250 inclusion in due course.
- The demerger and IPO remains subject to a range of matters including regulatory approvals and NAB shareholder approval, which is expected to be sought at a NAB shareholder meeting in January 2016.

2015 Full Year Business Performance Commentary

Cash earnings of £156 million[3] were relatively flat in the year ended 30 September 2015 having reduced by £2 million, or 1.3%, compared to the September 2014 financial year. The reduction was primarily driven by lower other operating income and higher expenses, partially offset by lower bad and doubtful debt charges.

Customer lending increased by £1.1 billion, or 4%, to £28.7 billion as at 30 September 2015. This included robust growth in retail lending, rising £2 billion or 10.2% from 30 September 2014 to £21.6 billion as at 30 September 2015. In line with this trend, UK mortgage lending growth was also strong, up 11.2%, to £20.5 billion as at 30 September 2015, increasing market share by 14 basis points to 1.61%. Business lending was down by 11.3%, to £7.1 billion as at 30 September 2015, compared to the previous year, due to the managed run-off of lower yielding assets combined with subdued demand for credit and competitive pressures.

Customer deposits also continued to grow and were up £2.5 billion or 10.3% to £26.3 billion as at 30 September 2015. Deposit mix was further improved as a result of growth in both current and savings accounts, alongside a reduction in higher cost term deposits.

The net interest margin (NIM) reduced by 9 basis points in the year ended 30 September 2015 compared to the prior year. Pressure on asset yields were largely mitigated by better funding costs. Lower swap income accounted for 7 basis points of NIM reduction. Net interest income increased by 0.7%, or £5 million, in the year ended 30 September 2015, driven by higher income from mortgage lending and lower funding costs resulting from an improved deposit mix. These results were partly offset by lower business lending income; a consequence of a reduction in business lending balances due to the managed run-off of lower yielding assets and subdued demand for business credit.

[3] 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 NAB 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 Results Announcement under Glossary of Terms.

Operating expenses increased by £45 million, or 6.6%, in the year ended 30 September 2015, driven by restructuring and pre separation costs combined with an increase in marketing and investment costs to support business growth. These effects were partially offset by a one-off pension scheme gain and charges of £13 million for conduct issues in the prior year that did not recur.

Other operating income reduced by £21 million, or 10.0%, in the year ended 30 September 2015, although this was in line with expectations following Clydesdale Bank's decision to reduce the fees associated with personal current accounts to improve the competitiveness of its current account proposition.

The charge to provide for bad and doubtful debts decreased by £42 million, or 52.5%, to £38 million (on an IFRS 9 basis) in the 2015 financial year, reflecting a reduction in business lending charges as a result of the improving operating environment across all asset classes.

The Customer Funding Index (CFI) has increased from 86.2% at September 2014 to 91.3% at September 2015. This was driven by strong growth in customer deposits and the runoff of non-core lending portfolios, partly offset by mortgage lending growth. The Stable Funding Index (SFI) remained flat between September 2014 (102.5%) and September 2015 (102.9%), as the increase in CFI has been offset by matured term funding.

The Common Equity Tier 1 (CET1) ratio of National Australia Group Europe Ltd, the parent company of Clydesdale Bank, increased from 9.4% at September 2014 to 13.2% at September 2015. This follows capital injections by NAB of £620 million in September. The strengthened CET1 is reflective of Clydesdale Bank's response to changes in the Prudential Regulatory Authority's prudential capital requirements and ordinary share issuance to increase Core Equity Tier 1 capital to the target range as identified as part of the demerger and IPO.

Conduct Update

In the second half of the financial year ended 30 September 2015, Clydesdale Bank PLC recognised an additional £465 million in conduct provisions. These provisions were covered by the £1.7 billion capital support package for CYBG in respect of potential future legacy conduct costs that the PRA has required to be put in place in order to achieve the proposed demerger and IPO. The £465 million comprises £390 million for payment protection insurance (PPI) including the expected outcomes of the past business review[4] and costs to run the remediation program and £75 million in relation to interest rate hedging products (IRHP) / fixed rate tailored business loans (FRTBLs).

[4] *The past business review considers all sales since 2005 (the date at which the FSA became the relevant regulator) to identify whether the sales practices at that time did or could have caused customer detriment. In the event that they did suffer detriment, redress is paid. In the event of a determination that they could have caused detriment, CYBG group will proactively write to the affected customer asking if they wish to have their case reviewed*

UK Banking [5]

	Year to Sep 15 £m	Year to Sep 14 £m	Sep 15 v Sep 14 %	Half Year to Sep 15 £m	Half Year to Mar 15 £m	Sep 15 v Mar 15 %
Net interest income	**764**	759	0.7	**378**	386	(2.1)
Other operating income	**189**	210	(10.0)	**96**	93	3.2
Net operating income	**953**	969	(1.7)	**474**	479	(1.0)
Operating expenses	**(731)**	(686)	(6.6)	**(394)**	(337)	(16.9)
Underlying profit	**222**	283	(21.6)	**80**	142	(43.7)
Charge to provide for bad and doubtful debts	**(38)**	(80)	52.5	**(14)**	(24)	41.7
Cash earnings before tax	**184**	203	(9.4)	**66**	118	(44.1)
Income tax expense	**(28)**	(45)	37.8	**(9)**	(19)	52.6
Cash earnings	**156**	158	(1.3)	**57**	99	(42.4)
Average Volumes (£bn)						
Gross loans and acceptances	**28.2**	26.8	5.2	**28.5**	28.0	1.8
Interest earning assets	**35.8**	34.2	4.7	**36.2**	35.5	2.0
Total assets	**38.8**	37.1	4.6	**39.1**	38.5	1.6
Customer deposits [(1)]	**25.0**	23.4	6.8	**25.8**	24.2	6.6

(1) Customer deposits includes retail and institutional deposits

	Year to Sep 15 £m	Year to Sep 14 £m	Sep 15 v Sep 14 %	Half Year to Sep 15 £m	Half Year to Mar 15 £m	Sep 15 v Mar 15 %
Capital (£bn)						
Risk-weighted assets - credit risk (spot)	**17.9**	18.7	(4.3)	**17.9**	18.4	(2.7)
Total risk-weighted assets (spot)	**23.6**	23.5	0.4	**23.6**	24.1	(2.1)
Performance Measures						
Cash earnings on average assets	**0.40%**	0.43%	(3 bps)	**0.29%**	0.52%	(23 bps)
Cash earnings on risk-weighted assets	**0.66%**	0.66%	-	**0.48%**	0.84%	(36 bps)
Net interest margin	**2.13%**	2.22%	(9 bps)	**2.08%**	2.18%	(10 bps)
Cost to income ratio	**76.7%**	70.8%	(590 bps)	**83.1%**	70.4%	(1,270 bps)
'Jaws'	**(8.3%)**	3.2%	large	**(17.9%)**	1.3%	large
Cash earnings per average FTE (£'000s)	**22**	22	-	**16**	27	(40.7)
FTEs (spot)	**7,244**	7,278	0.5	**7,244**	7,249	0.1

Distribution	As at Sep 15	As at Mar 15	As at Sep 14
Number of retail outlets [(1)]	271	294	296
Number of ATMs	894	888	859
Number of internet banking customers (no. '000s)	689	659	623

(1) Retail outlets include both stores and kiosks.

[5] The results above are for NAB UK Banking and not those of Clydesdale Bank PLC or CYBG 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.

Reconciliation of UK Banking to CYBG PLC results

Year ended Sep 15 £m	UK Banking[1]	Non UK Banking[2]	Statutory Reclass	CYBG PLC
Net interest income	764	9	14	787
Other operating income	189	31	20	240
Net operating income	**953**	**40**	**34**	**1,027**
Operating expenses	(731)	(487)	(16)	(1,234)
Impairment losses on credit exposures	(38)	(22)	(18)	(78)
Cash earnings (pre-tax)[3]	**184**	**(469)**	**-**	**(285)**
Tax expense	(28)	88	-	60
Cash earnings (post-tax)[3]	**156**	**(381)**	**-**	**(225)**

[1] *Represents the UK Banking segment as reported in the NAB Group's results*
[2] *Represents certain CYBG PLC items recognised outside of the UK Banking segment including the gains on capital restructure and conduct charges*

Media Contacts:

Clydesdale Bank

Barry Gardner 0800 066 5998 / 07789 171 614
Jason Clarke 0113 807 2372 / 07766 924 154

FTI Consulting

Neil Doyle 07771 978 220
Paul Marriott 07703 330 390