

## **Q1 TRADING UPDATE**

### **Clydesdale and Yorkshire Banks**

## **STRATEGIC REVIEW TO PROVIDE STRONG AND SUSTAINABLE FUTURE**

**London, 7 February 2012:** National Australia Bank Group, owner of the Clydesdale and Yorkshire Banks, today released a trading update for its UK Banking\* operations in the quarter to 31 December 2011.

### **Key Points**

- Higher wholesale funding and deposit costs, continuing subdued credit demand and fragile economic conditions worldwide characterised the operating environment in most of the regions in which NAB operates.
- Economic conditions in the UK deteriorated during the quarter. The outlook remains challenging with the slow and fragile pace of recovery impacting customers.
- These conditions, combined with a weakening commercial property market, have impacted revenue and bad and doubtful debts.
- The UK business needs to respond to the poorer outlook and to adapt to structural changes in the UK banking market.
- In light of this, the Group, has commenced a strategic review, and will work with UK management to appropriately reposition its business mix and structure for the changed economic environment and improve returns.

### **Cameron Clyne, NAB Group Chief Executive, said**

“It is clear that the UK economy is likely to experience a much longer period of subdued growth with the ongoing sovereign debt crisis in the Euro-zone and the continuing austerity program by the UK government. UK GDP declined by 0.2%<sup>1</sup> in the December quarter. These difficult conditions have adversely affected the performance of UK Banking. Given our view that recovery is now a longer term prospect, NAB has commenced a strategic review, and will work with UK management to appropriately reposition its business mix and structure for the changed economic environment and improve returns. We will inform the market of the outcomes of the review, which we expect to occur by the time of our interim result in May 2012.”

### **David Thorburn, Chief Executive, commented:**

“The time is right for us to re-examine our business given the recent reversal in the economic recovery, the structural changes in the UK Banking market and our performance in that context. NAB, working with UK management, commenced a strategic review to reposition our business for this changed environment and to improve shareholder returns.

“Getting the right business mix and structure is vital and the review will shape that. However, it is already clear that the economics of our retail banking operation are strong.

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<sup>1</sup> Preliminary estimate announced by the Office for National Statistics, January 2012

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“We will continue to support our branch network and invest in developing online and telephone banking services for both retail and business customers. We will also remain committed to providing support for savers and mortgage customers across the UK”.

“Although reshaping the business will mean that we will have to take tough decisions, we are confident that the outcome will provide a strong and sustainable future for Clydesdale and Yorkshire Banks.”

#### **UK Banking ASX**

Operating conditions deteriorated during the quarter resulting in lower earnings. Net interest margin declined due to increased wholesale funding costs, higher deposit costs and increased liquid asset holdings. Lending activity was subdued and fees were lower as a result of a further slowdown in economic activity. Expenses continued to be well managed.

The charge for bad and doubtful debts was higher at 1.27% of gross loans and acceptances on an annualised basis in the quarter compared to 0.86% for the September half year, reflecting deteriorating conditions for UK Banking customers and a reduction in collateral values. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased from 3.12% at 30 September 2011 to 3.22% at 31 December 2011.

**National Australia Bank Group's** full trading update is available at [www.nabgroup.com](http://www.nabgroup.com)

\* **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.

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