National Australia Bank

UK BANKING STRATEGIC REVIEW

30 April 2012

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National Australia Bank Limited ABN 12 004 044 937

nab MLC Clydesdale Bank Yorkshire Bank Bank of New Zealand Great Western Bank

Only one option currently in shareholders' interests

Restructure to improve returns	Outright sale	Maintain status quo	Grow UK through acquisition
▸ Simplifying around existing core has lower execution risk ▸ Acceptable returns attainable, especially in retail ▸ Lower risk appetite ▸ Less funding and capital support from NAB ▸ Future optionality preserved	▸ Listed UK banks trading at 0.2-0.6x book value[1] ▸ £ near 27 year low against AUD ▸ Potential buyers dealing with own challenges ▸ Clean exit unlikely (e.g. CRE, funding)	▸ Unacceptable medium term return profile ▸ Higher cost funding position ▸ Increased capital support ▸ CRE concentration risk	▸ High execution risk ▸ More challenging economic environment ▸ Greater funding and capital support from NAB ▸ Not clear long-term industry returns will close gap on Australia
✓	✗	✗	✗

(1) Includes Barclays, Lloyds and RBS

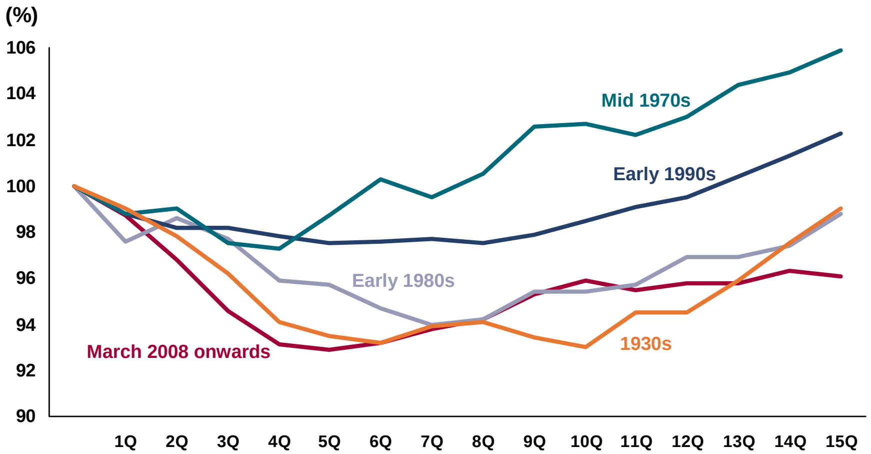
Overview

The need for change in the UK	Macro economic environment is fragile, with the UK economy becoming weaker Commercial real estate values starting to decline again Higher funding costs due to three notch rating downgrade UK industry returns under considerable pressure
Strategic response	Implement simplified business model Transfer commercial real estate assets to NAB and run off CRE provision coverage improved
Benefits	UK Banking balance sheet largely self-funded and lower risk Organisation simplified - annual cost savings £74m by FY15 Targeting more acceptable returns with lower risk
Other matters	UK Banking unaudited 1H12 cash earnings loss of £25m, down £131m on 2H11[1] Goodwill impairment of £141m PPI provision top up of £120m due to increased claims Defined benefit pension plan deficit reduced Proposals remain subject to final approval from regulators

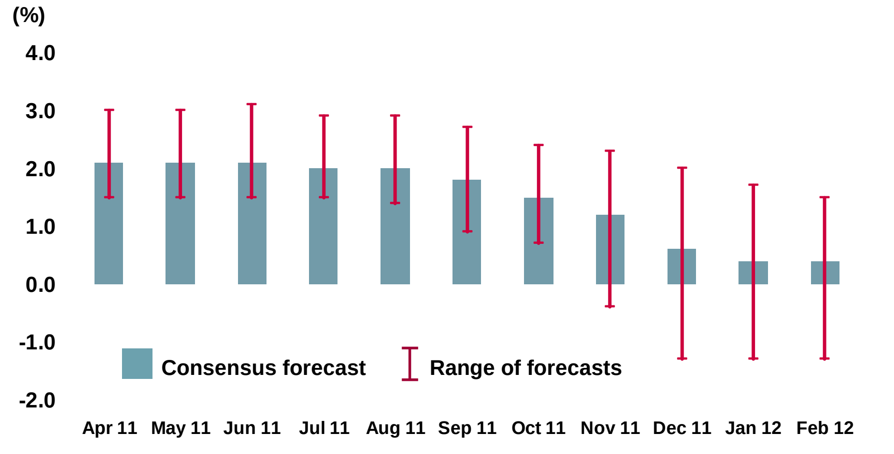
(1) Results at 31 March 2012 are unaudited and will be finalised and reviewed by the Group's auditors as part of the usual results process for announcement on 10 May 2012

UK economic recovery slower than 1930s

Quarterly real output path during UK recessions[1]



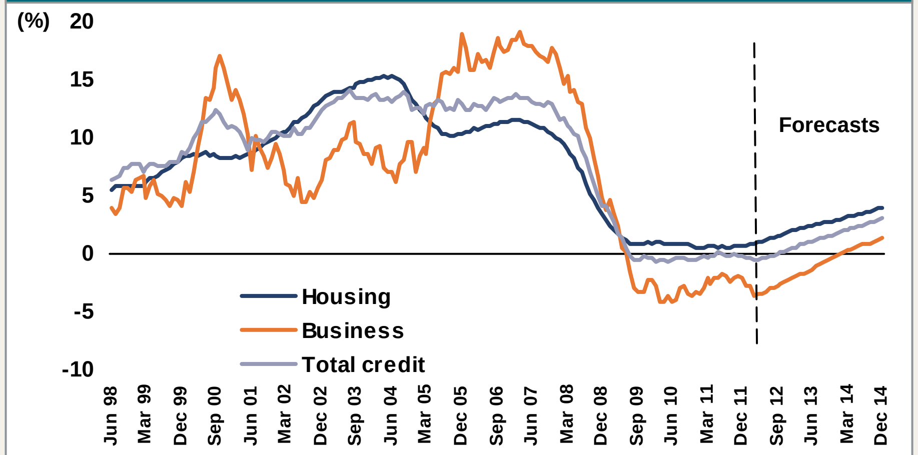
Monthly consensus forecasts of 2012 GDP growth (% change)[2]



Economic forecasts

	2012	2013	2014
GDP (% change)	0.4	1.5	2.0
System credit (% change)	-0.3	0.2	3.0
Base rate (%)	0.5	0.5	0.75
Sterling/$A	0.65	0.62	0.59
Fiscal deficit (% of GDP)[3]	8.4	7.6	6.0
CPI (% change)	2.6	2.0	2.1

System credit growth (% change)



Source: Bank of England/NAB forecasts

(1) Previous peak = 100. Source: nab Economics, UK Office of Budget Responsibility
(2) Source: HM Treasury
(3) Source: OBR forecasts, UK fiscal years

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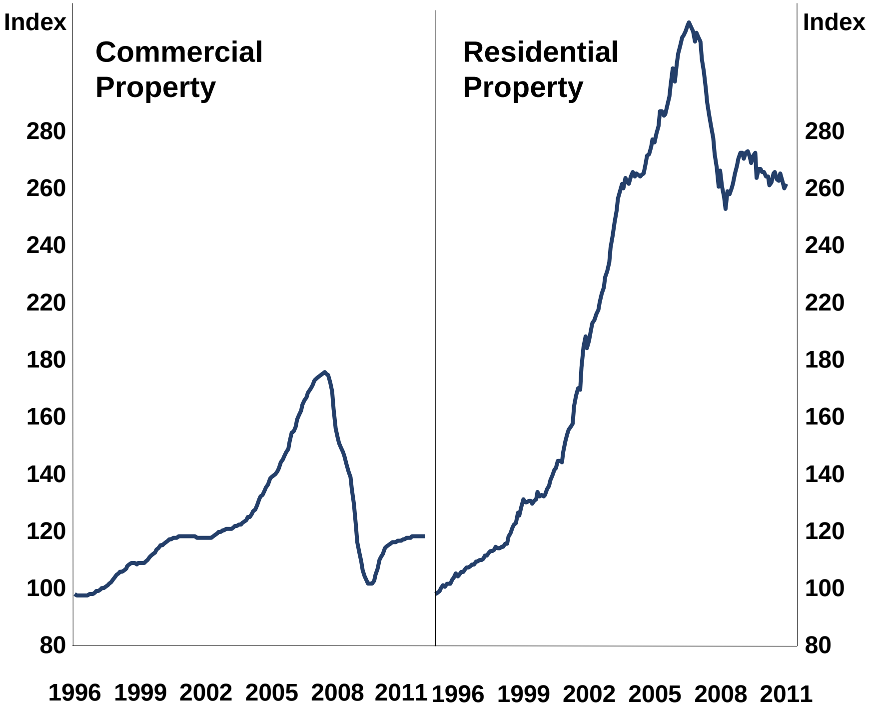
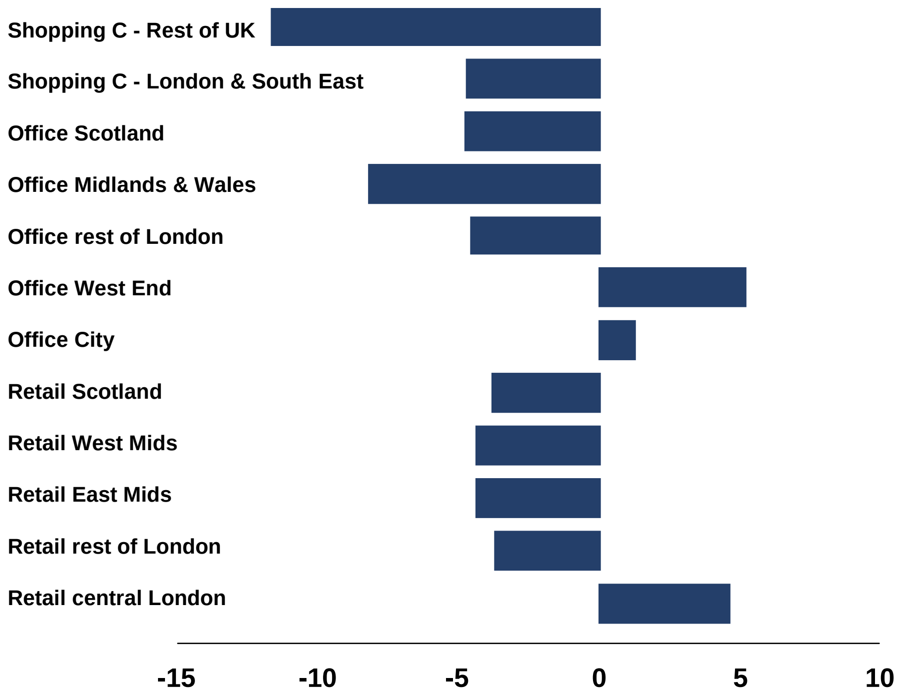
‘Double dip’ in UK real-estate values

UK nominal property values



Source: IPD for commercial property and Lloyds Halifax index for residential property, deflated by core CPI

UK commercial property capital value
Growth Oct 2011 to Feb 2012 (%)



Source: IPD

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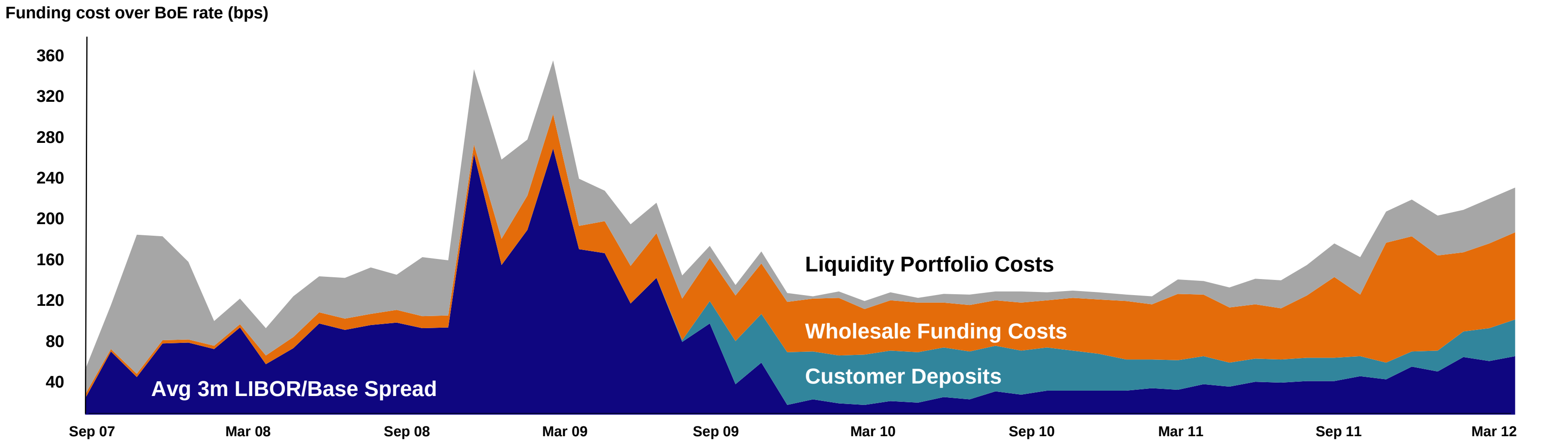
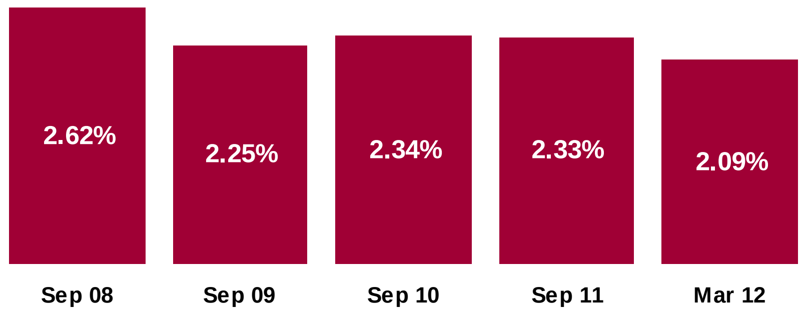
Ratings downgrade increases funding costs

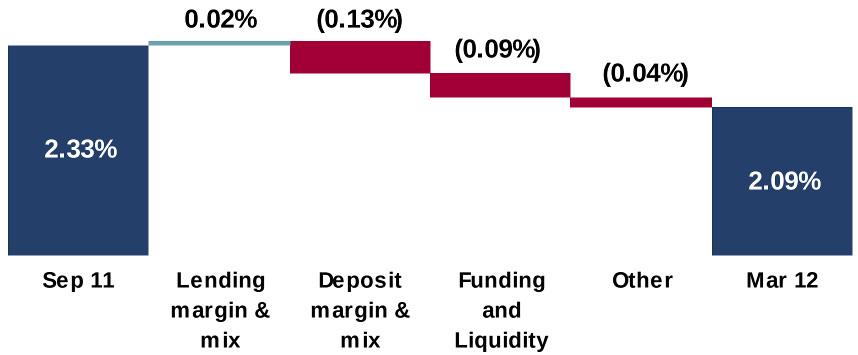
Clydesdale Bank plc funding costs since 2007



UK Banking NIM pressured over time

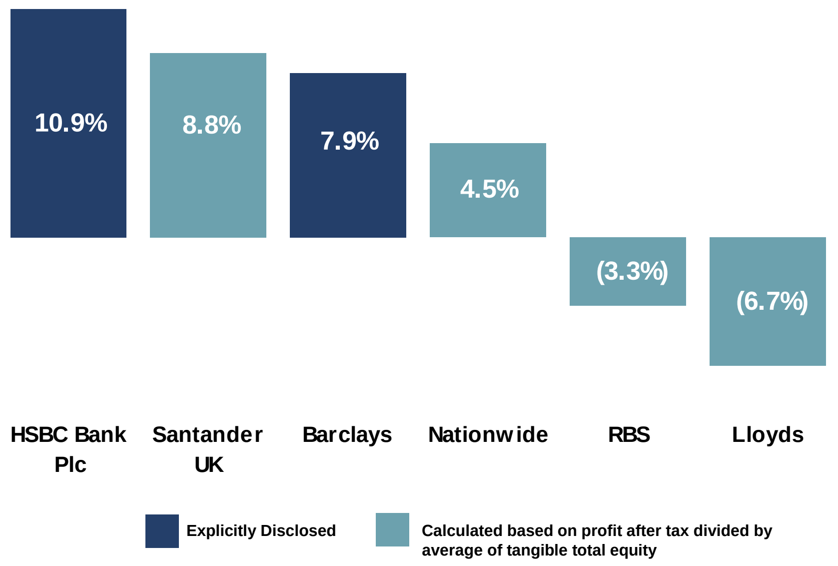


UK Banking NIM March 2012 vs September 2011



UK industry returns are under pressure

2011 UK Banks' RoATE



Source: 2011 Audited Financial Statements

UK Bank ROE targets

	Original target	Revised target
Barclays	13% by 2013	13% over time
Lloyds Group	12.5% - 14.5% by 2014	12.5% - 14.5% beyond 2014
RBS	Core >15% in 2013	Core >12% medium-term target

Source: Company Information

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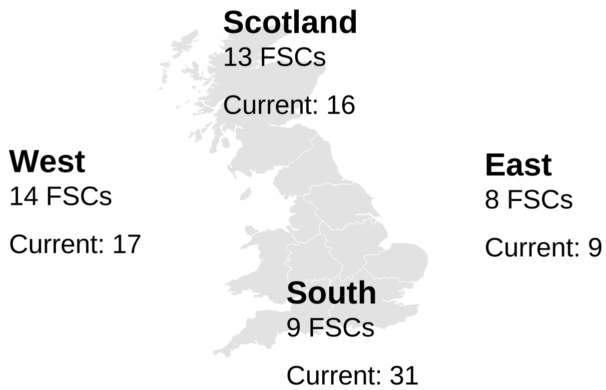
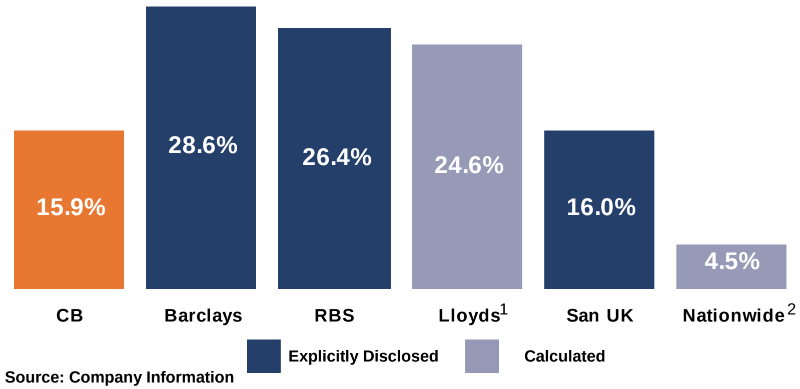
Implement simplified business model

Rationale	▸ UK retail banking returns are improved and superior to business ▸ Strong franchise in 'heartlands' of Scotland and Northern England
Key changes	▸ Focus around sound Retail bank ▸ Implement simplified model for business banking focused in Scotland and Northern England ▸ Streamline operations, technology and support functions
Summary impacts	▸ Reduce staff by net circa 1400 FTE relative to FY11, mainly iFS ▸ Close 29 and relocate nine FSCs ▸ Close six back office locations ▸ Improve retail sales productivity

Rationalise FSC footprint



2011 UK Retail RoATE



Source: Company Information

(1) Based on divisional profit after tax (assuming 28% tax rate) divided by average notional equity (based on 10% of divisional RWAs)
(2) Group level

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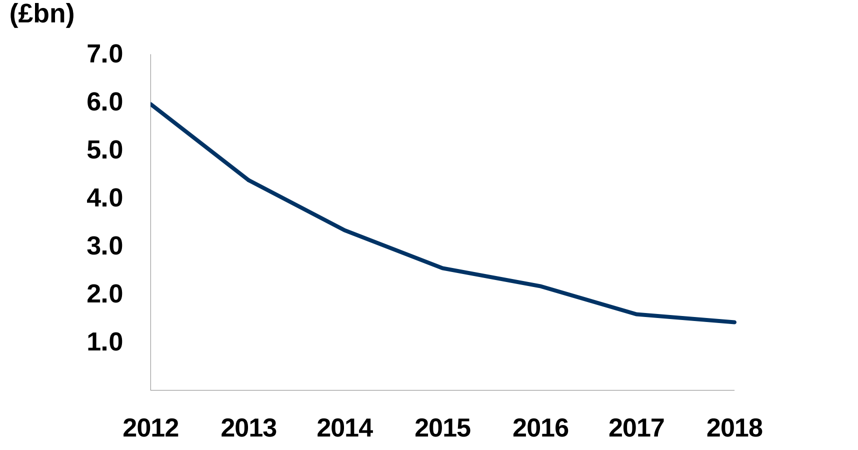
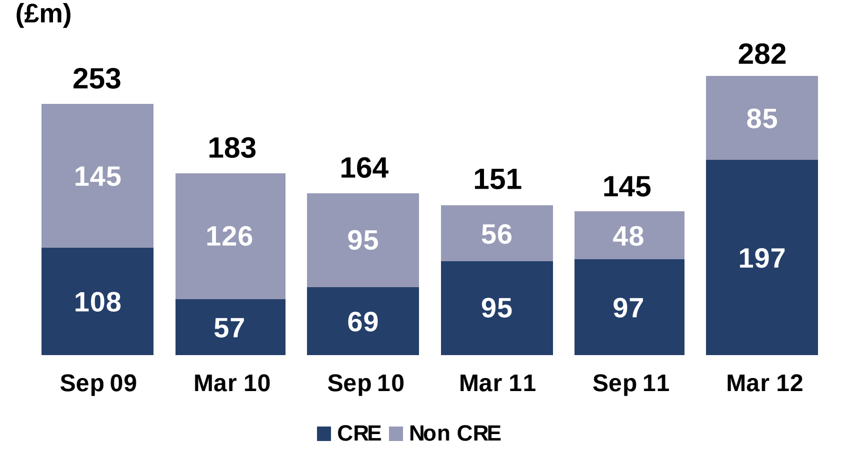
Transfer UK CRE assets to NAB and put into run off

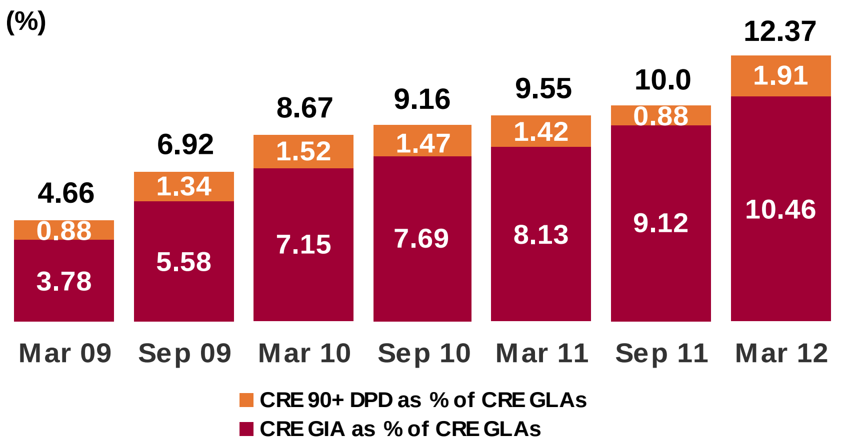
UK CRE run-off profile – contractual maturity[1]



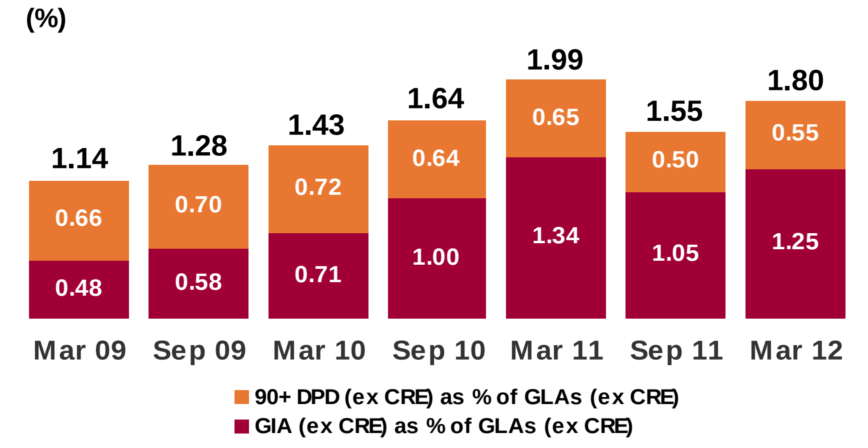
UK Banking B&DDs



UK CRE credit quality[2]



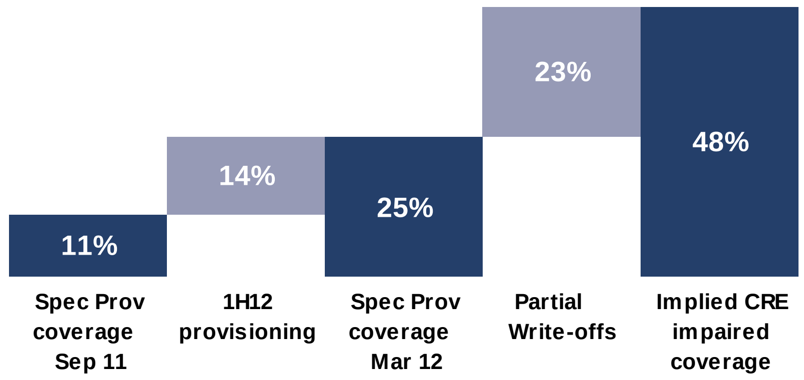
UK Credit quality excluding CRE



(1) Reflects contractual maturity which is subject to ability of customers to refinance or repay on maturity
(2) Reflects credit quality of total CRE portfolio

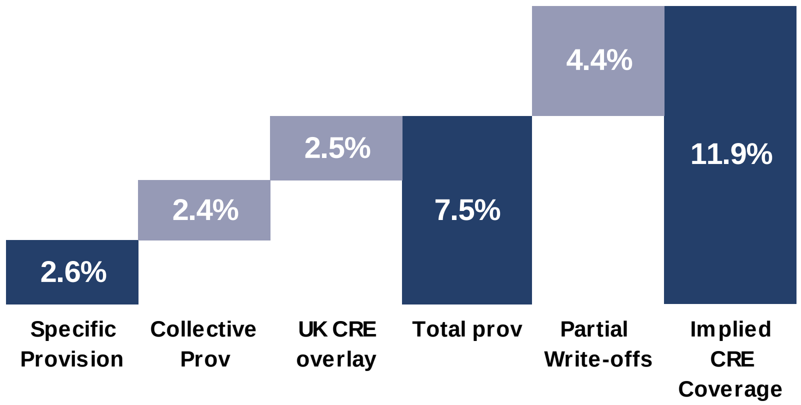
UK CRE provisioning increased

UK CRE impaired loan coverage

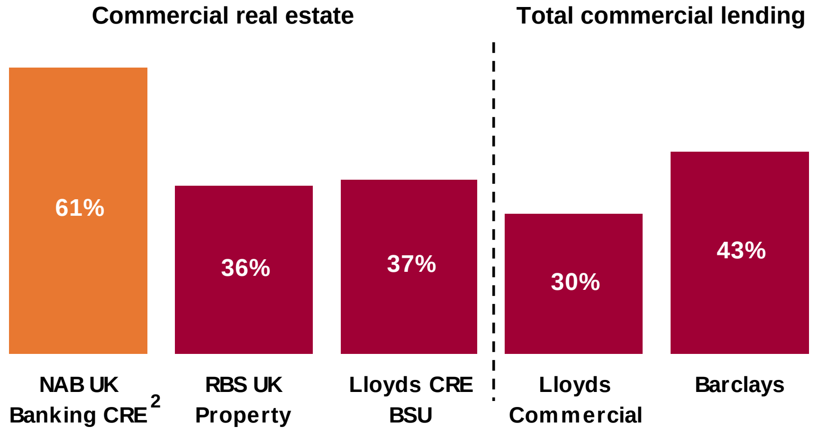


Note: CRE specific provision over CRE impaired assets

Total UK CRE provision coverage – Mar 12

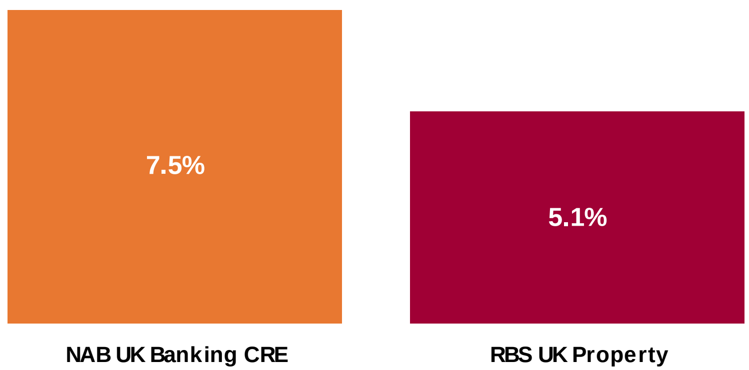


Provision coverage of NPL assets[1]



Note: Total provision over impaired and 90DPD loans

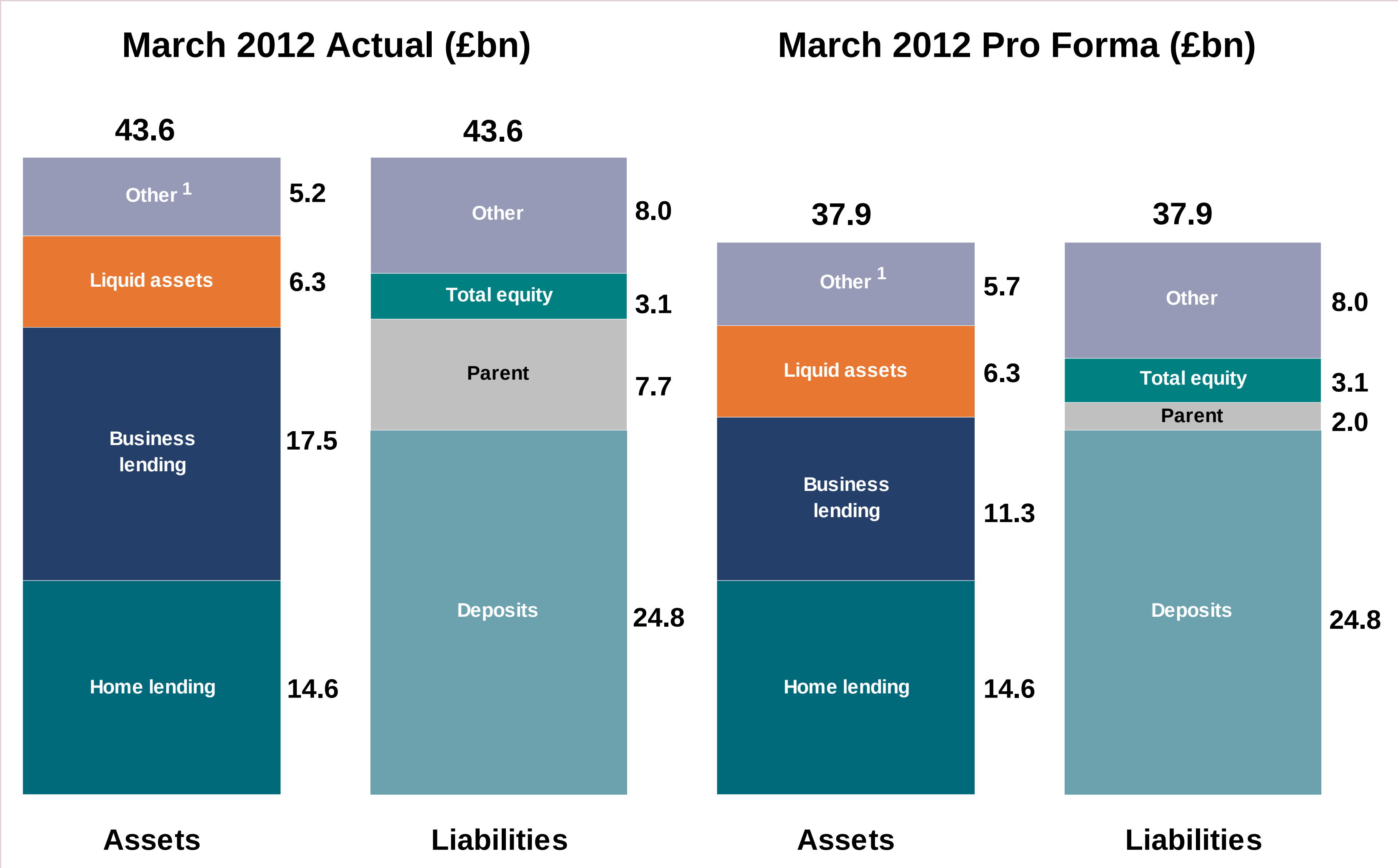
Provision coverage of CRE assets[1]



Note: Total provision over total loans

(1) Source of peer comparison is 2011 audited financial statements
(2) Includes UK CRE overlay of £150m – excluding overlay coverage is 41%

Restructure improves CB balance sheet structure



(1) Other is net of provision for bad and doubtful debts

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Costs and benefits profile

Total costs and impact on Group capital ratio (pre tax)						
£m	Total	1H12	2H12	Group capital		
				£m	$m	bps
Redundancy	86	-	86	(86)	(131)	(4)
Lease break costs	35	-	32	(35)	(53)	(1)
Software write-off	36	36	-	-	-	-
Other	38	-	21	(38)	(58)	(2)
Restructuring	195	36	139	(159)	(242)	(7)
Goodwill write-off	141	141	-	-	-	-
PPI	120	120	-	(120)	(182)	(5)
Total	456	297	139	(279)	(424)	(12)

Profile of forecast operating expense benefits			
Benefits (£m)	FY13	FY14	FY15
Actual	35	63	74
Annualised run rate	52	64	74
Cumulative FTE[1]	831	958	987

- Expect to book redundancy costs in 2H12
- Planned FTE reduction by September 2015 of over 1400 from September 2011 includes restructuring (987), other productivity initiatives (233) and natural attrition
- Lease break costs relate to closure of 29 FSC and six back office sites, and relocation of nine FSCs
- Software impairment - predominantly business banking systems
- Other is primarily program management, legal and other costs associated with the restructure

(1) This includes 191 transferred roles to NAB associated with the CRE portfolio and excludes current year initiatives

UK Banking 1H12 unaudited financial results

	Half year to				
(£m)	Mar 12	Sep 11	Mar 11	Change on Sep 11	Change on Mar 11
Net interest income	450	491	481	(8.4%)	(6.4%)
Other operating income	142	153	134	(7.2%)	6.0%
Net operating income	592	644	615	(8.1%)	(3.7%)
Operating expenses	(348)	(363)	(363)	4.1%	4.1%
Underlying profit	244	281	252	(13.2%)	(3.2%)
B&DDs	(282)	(145)	(151)	large	large
Cash earnings	(25)	106	77	large	large
Cash RoRWA	(16bps)	65bps	46bps	(81bps)	(62bps)
NIM	2.09%	2.33%	2.33%	(24 bps)	(24 bps)
Spot GLAs (£bn)	33.5	33.7	32.8	(0.6%)	2.1%

UK 1H12 pro forma unaudited results

	1H12 Reported	Portfolio trs to NAB	Restructuring costs	Other	1H12 Pro forma
Cash earnings (£m)	(25)	125	-	-	100
Cash RoRWAs	(16bps)	92bps			76bps
CB Tier 1 ratio	10.3%	240bps	(53bps)	(89bps)	11.3%
CB SFI	97%	18%	-	-	115%
CB Assets CB funding gap	£43.6bn £8.4bn	(£5.7bn)[1] (£6.2bn)	- -	- -	£37.9bn £2.2bn
No. retail branches No. FSC	337 73	- -	- (29)	- -	337 44

(1) Portfolio to be transferred of approximately £6.2bn less provision for bad and doubtful debts

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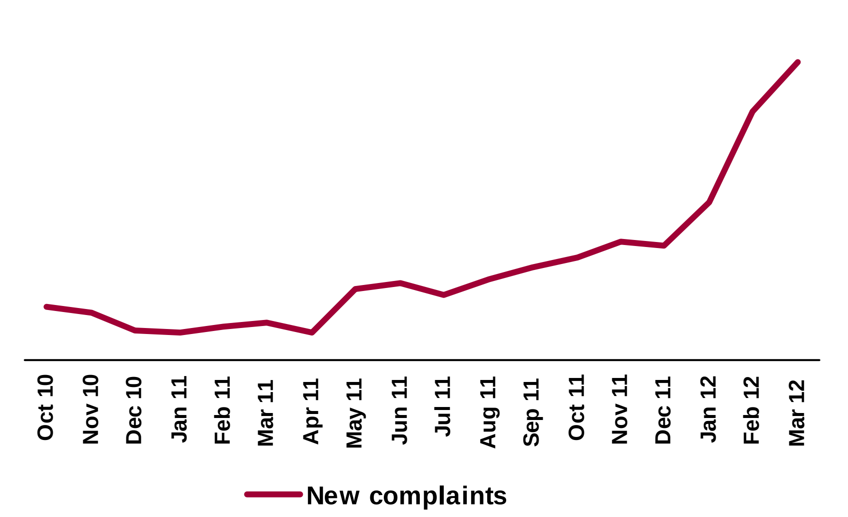
Other issues – Payment Protection Insurance (PPI)

- CB plc raised £100m provision bringing the balance to £120m in May 2011 following the BBA's withdrawal from the judicial review process
- £71m of provision utilised since it was raised
- Claims experience accelerated significantly since end 2011
- An additional £120m included with 1H12 results giving a total provision of £169m
- Significant uncertainty remains

CB PLC claims experience by month



As at December 2011	Original provision (£m)	Redress paid (£m)	Utilisation (%)
Barclays Bank	1,000	435	43.5%
Lloyds Banking Group	3,200	1,045	32.7%
RBS [1]	1,065	320	30.0%
Clydesdale Bank	120	44	36.7%

Source: Company accounts December 2011

(1) £850m provided in the year in addition to £215m existing provision

Other issues – goodwill and pension plan

- Goodwill impairment charge of £141m reflects weaker operating environment and outcome of UK strategic review
  - No impact on regulatory capital
  - No UK goodwill remaining
- Defined benefits pension plan reformed during the half year
  - Pension IAS 19 deficit of £85m as at March 2012, Sep 2011 £180m
  - Recent reforms agreed and announced include:
    - NAB paid £130m into the DB scheme in January 2012
    - Staff will contribute to DB Scheme unless they elect to receive reduced benefits
  - Future P&L impact subject to market conditions, particularly equity markets, bond yields and inflation

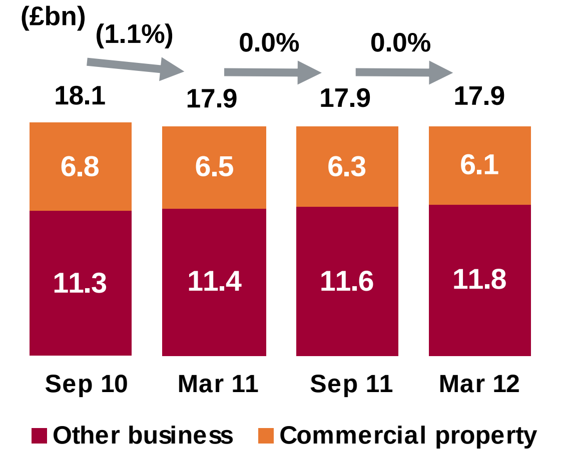
Conclusions

- Economic environment expected to remain challenging for longer
- CRE provisioning coverage improved and portfolio in run-off
- Repositioned to a simplified and lower risk retail/SME oriented business model
- Improved CB balance sheet structure – improved capital position and reduced parental funding requirements
- Targeting more acceptable returns in the medium term

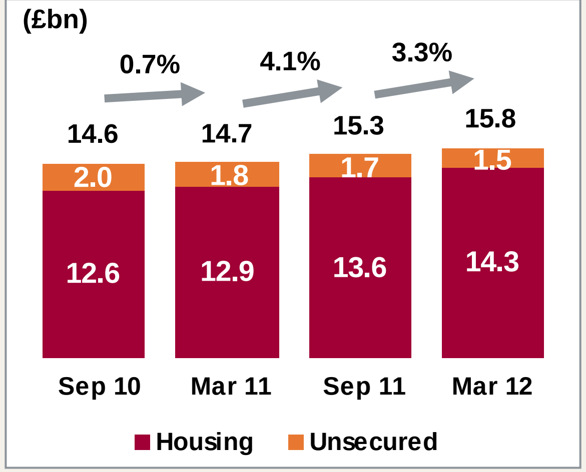
Appendix

UK Banking

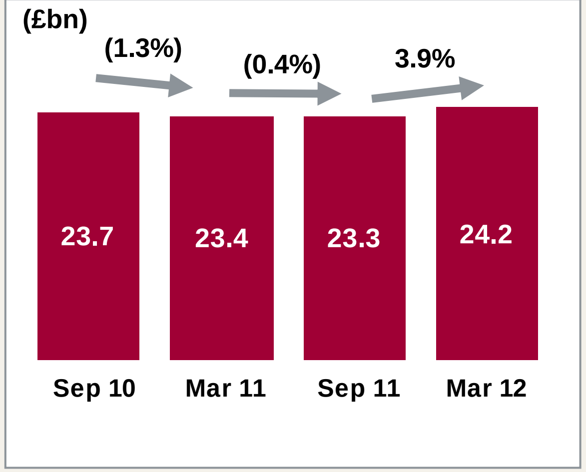
Business lending



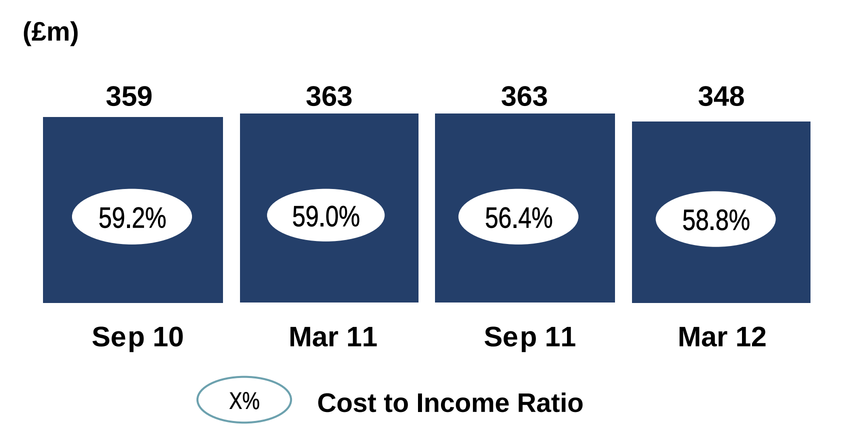
Personal lending



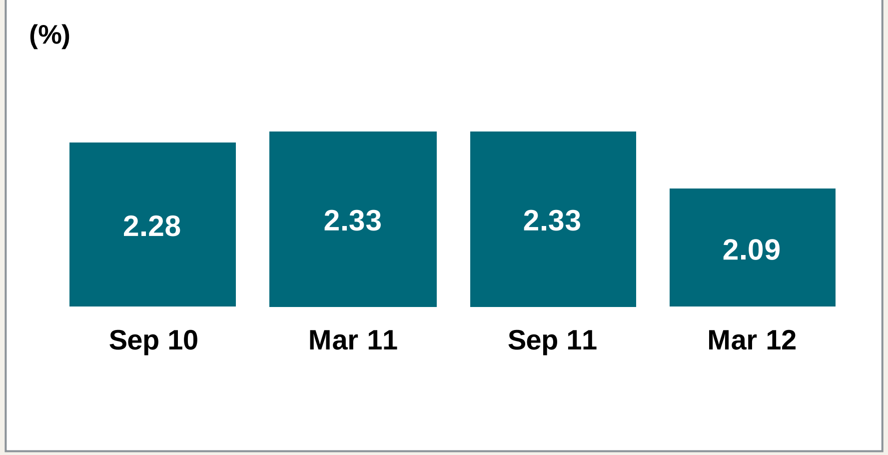
Retail deposits



Costs

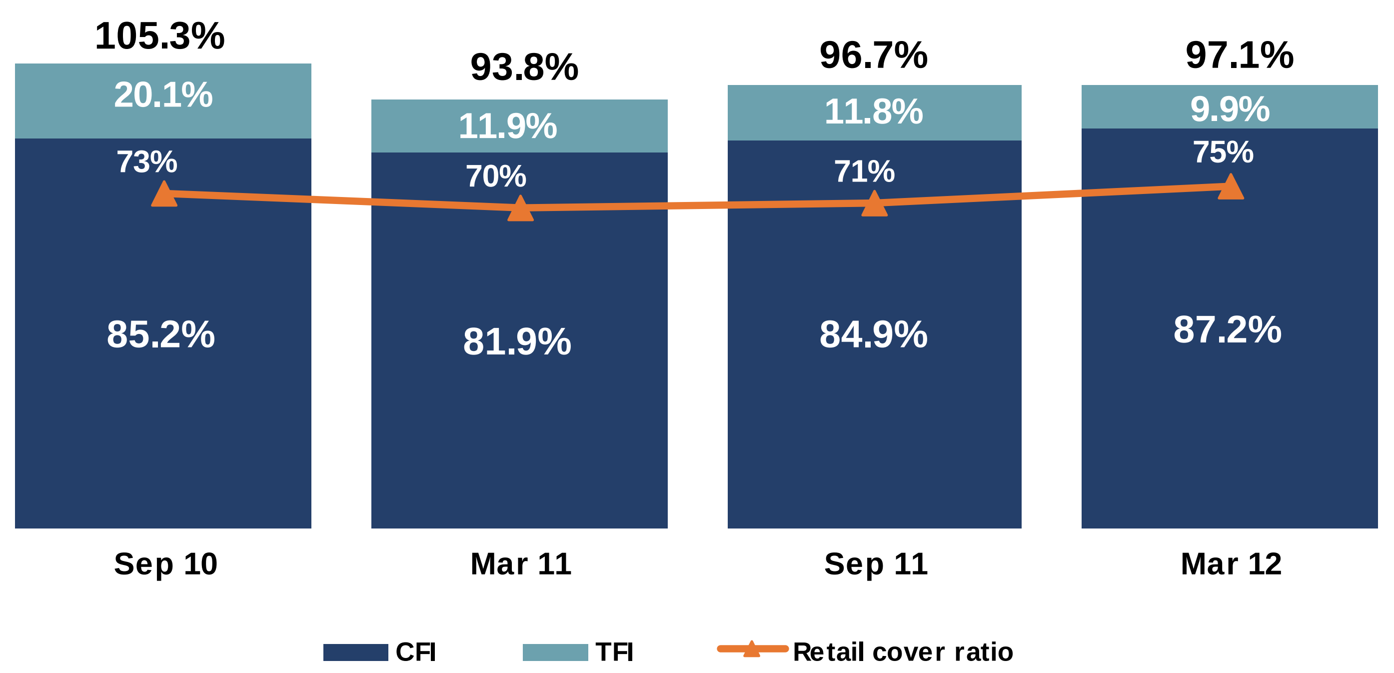


Net interest margin



Funding mix

Stable funding index

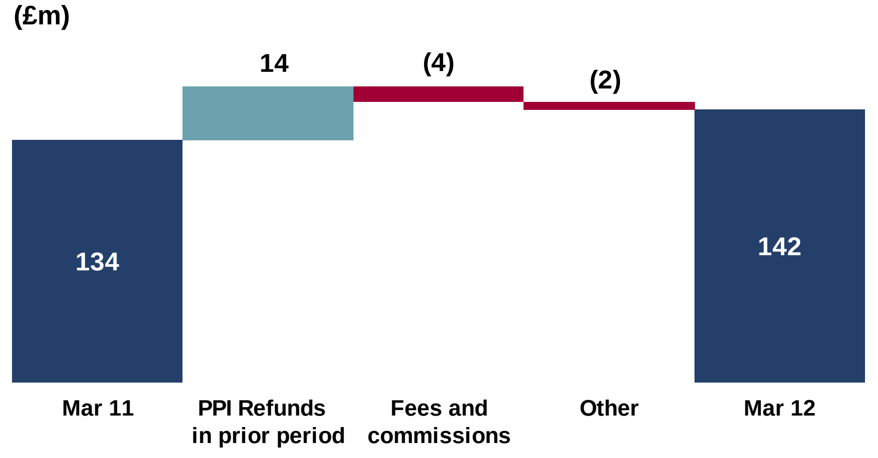


Stable funding index (SFI) based on spot balances

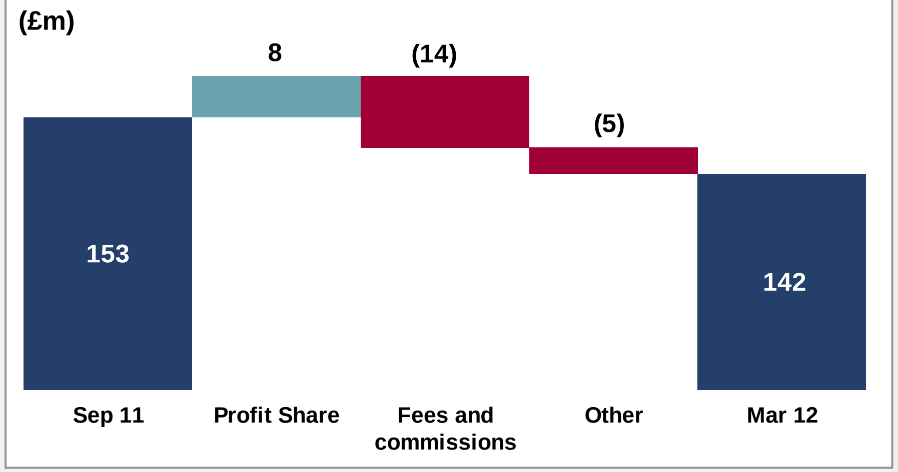
Clydesdale Bank Yorkshire Bank National Australia Bank

UK Banking: Other operating income and expenses

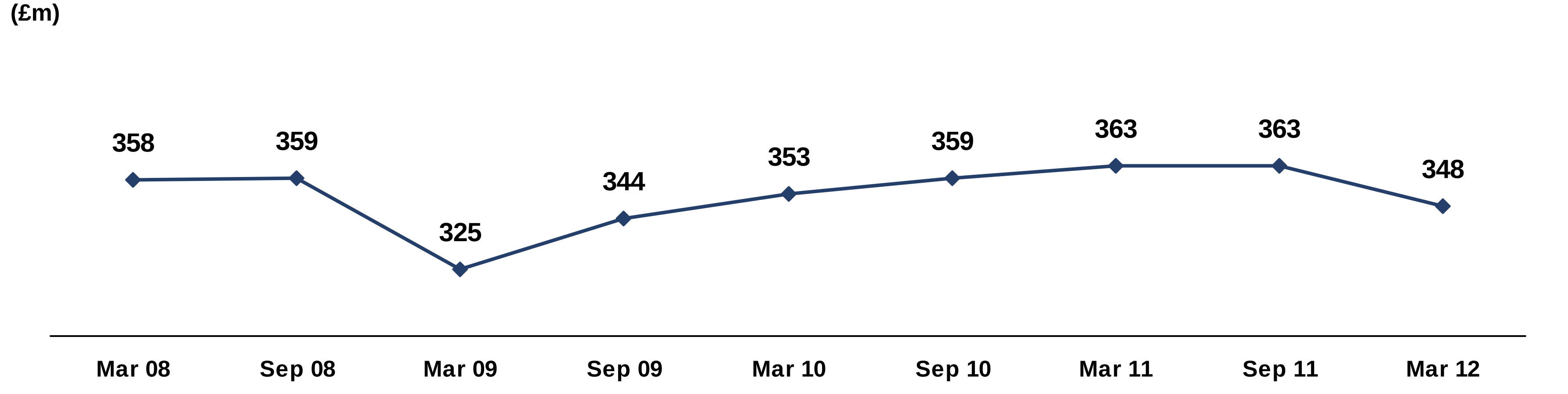
March 12 v March 11
Other operating income



March 12 v September 11
Other operating income

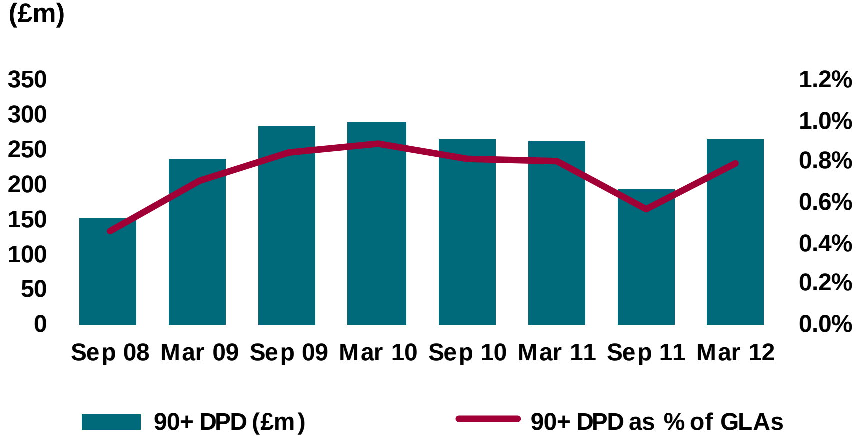


Operating expenses

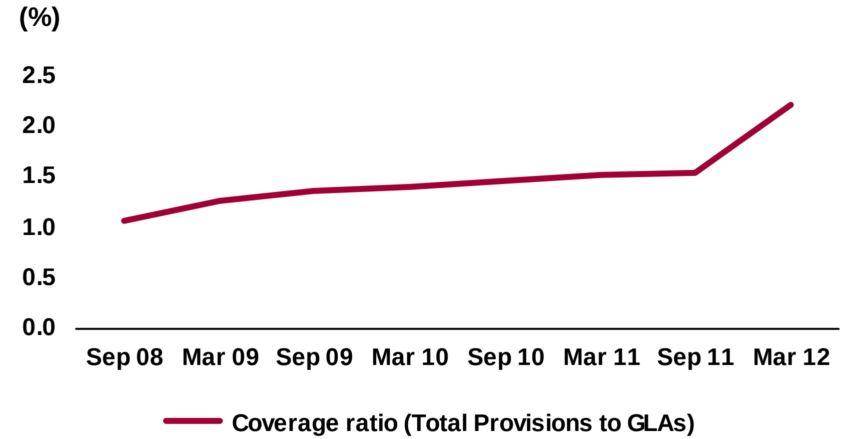


UK Banking: Asset quality

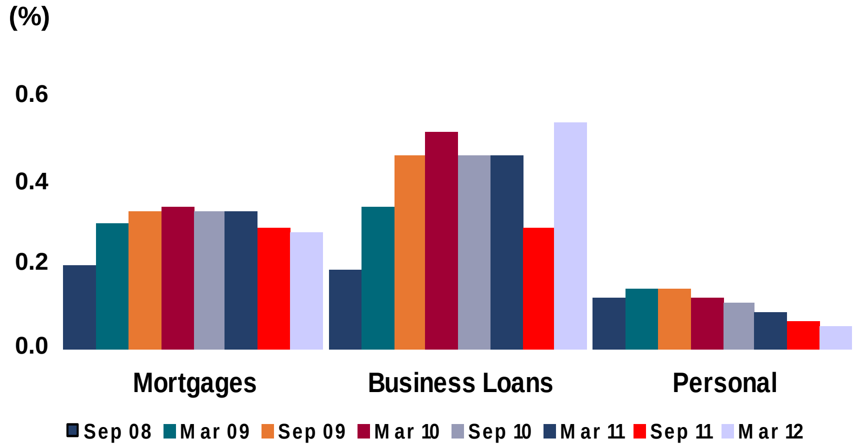
Total 90+ DPD as a % of GLAs



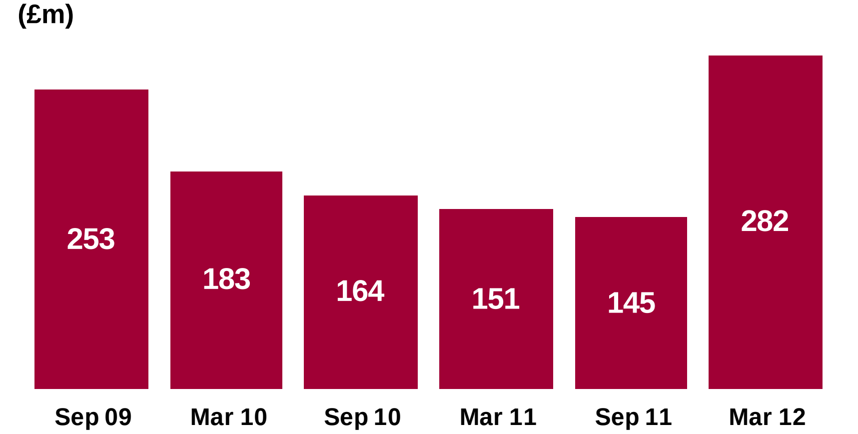
Coverage ratio



90+ DPD as a % of GLAs by product

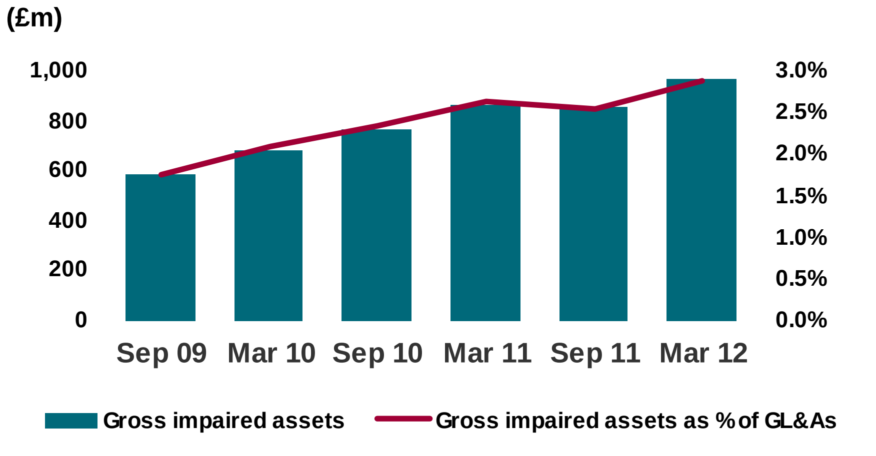


B&DD charge

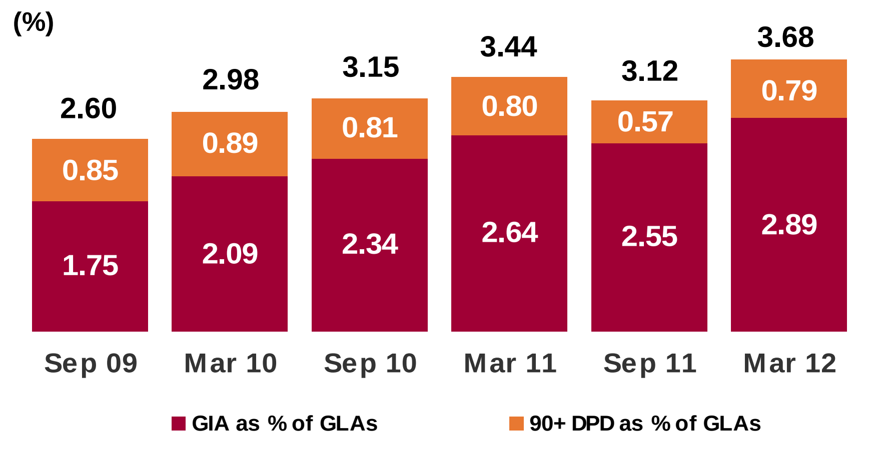


UK Banking: Asset quality

Gross impaired assets

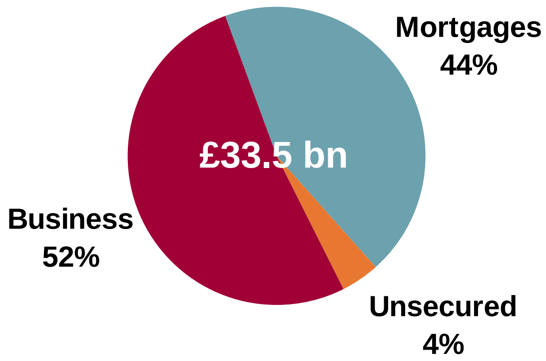


90+ DPD and GIAs as a % of GLAs

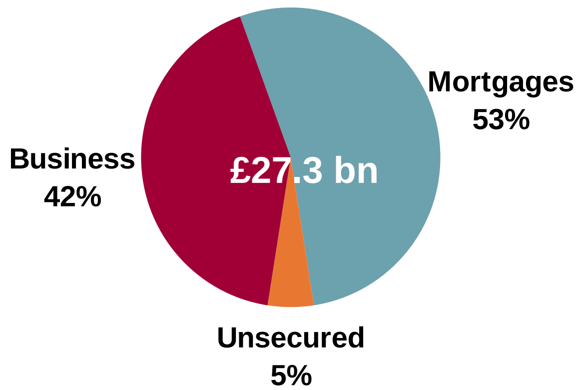


UK portfolio composition

March 2012 Total portfolio composition



Pro forma portfolio composition (post CRE transfer to NAB)

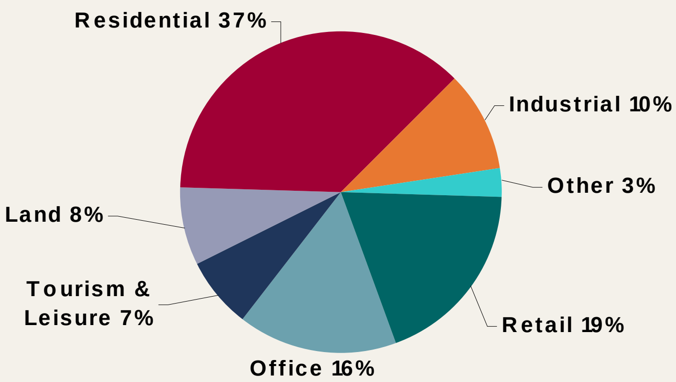


Gross Loans & Acceptances
£33.5bn
100%

- **Business Lending £17.5bn 52%**
  - Commercial Property £6.0bn 34%
    - Investment £5.1bn 85%
    - Development £ 0.9bn 15%
  - Non Property £11.5bn 66%
- **Mortgages £14.6bn 44%**
  - Residential £11.7bn 80%
  - IHL £2.9bn 20%
- **Unsecured £1.4bn 4%**
  - PL £0.7bn 47%
  - Cards £0.5bn 33%
  - Other £0.2bn 20%

Commercial Real Estate - UK Banking

Total £6.0bn
17.8% of Gross Loans & Acceptances



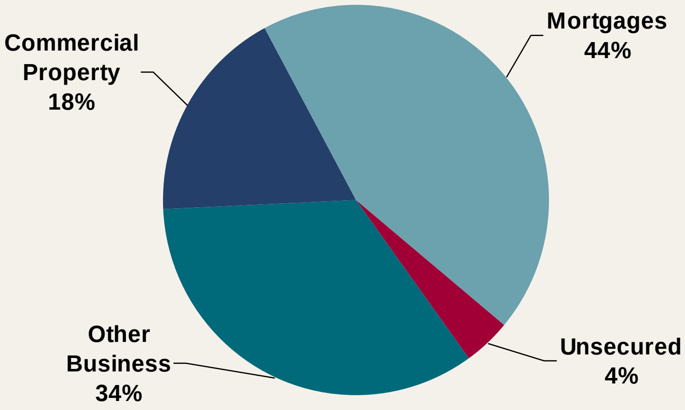
Region		North	East	South	West	Total
Location %		28%	29%	16%	27%	100%
Loan Balance < £2m		14%	13%	8%	14%	49%
Loan Balance > £2m < £5m		6%	6%	3%	6%	21%
Loan Balance > £5m		8%	10%	5%	7%	30%
Average loan tenor < 3 yrs		19%	16%	11%	15%	61%
Average loan tenor > 3 < 5 yrs		3%	4%	2%	5%	14%
Average loan tenor > 5 yrs		6%	9%	3%	7%	25%
Average loan size		£0.75m	£0.84m	£1.00m	£0.76m	£0.81m
Security Level[1]	Fully Secured	13%	14%	11%	15%	53%
	Partially Secured	14%	15%	5%	12%	46%
	Unsecured	1%	0%	0%	0%	1%

Trend	Mar 12	Sep 11	Mar 11	Sep 10
90+ days past due	1.91%	0.88%	1.42%	1.47%
Impaired Loans	10.46%	9.12%	8.13%	7.69%
Specific Provision Coverage	25.21%	11.2%	9.1%	4.8%

(1) Fully secured represents loans of up to 70% of the market value of security.
Partially secured are over 70%, but not unsecured. Unsecured is primarily negative pledge lending

UK Banking

Portfolio breakdown – total £33.5bn



UK Mortgages	Mar 12	Sep 11	Mar 11
Owner Occupied	79.7%	79.6%	79.6%
Investment	20.3 %	20.4 %	20.4 %
Low Document	0.0 %	0.0 %	0.0 %
Proprietary	72.0 %	72.8 %	75.1 %
Third Party Introducer	28.0 %	27.2 %	24.9 %
LMI Insured % of Total HL Portfolio	1.3 %	1.4 %	1.5 %
Loan to Value (at Origination)	62.7 %	64.0 %	62.5 %
Loan to Value Indexed	53.5 %	53.4 %	53.5 %
Average loan size £ ('000)	97	94	90
90 + days past due	0.57 %	0.62 %	0.76 %
Impaired loans	0.43 %	0.44 %	0.38 %
Specific provision coverage	21.4 %	30.1 %	22.8 %
Loss rate	0.11%	0.06%	0.05 %

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Note: *Information in this document is presented on a cash earnings basis.*

Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure and is not presented in accordance with Australian accounting standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the company. A definition of cash earnings, discussion of non-cash earnings items, and a full reconciliation of the 2011 full year cash earnings to statutory net profit attributable to owners of the company, will be included in the 2012 March Half Year Results dated 10 May 2012. The Group's audited financial statements, prepared in accordance with Corporations Act 2001 (Cth) and Australian Accounting Standards, will also be included in the 2012 March Half Year Results dated 10 May 2012.

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