800 Bourke Street
Docklands VIC 3008
AUSTRALIA
www.nabgroup.com

Thursday, 5 May 2016

ASX Announcement

NAB 2016 Half Year Results

Simpler, more focused business, with improving momentum

Highlights

- Cash earnings[1] of $3.31 billion, up 6.5% compared to March 2015 half year
- Statutory net loss of $1.74 billion reflects discontinued operations[2]
- Interim dividend unchanged at 99 cents per share fully franked
- Australian Banking cash earnings up 5% and revenue up 4% over March 2015 half year
- Asset quality strong with 90+ days past due and gross impaired asset ratio of 0.78%
- Cash ROE 14.1%
- CET1 ratio of 9.7% compared to target range of 8.75 – 9.25%

Key points

The March 2016 half year results for continuing operations are compared with March 2015 half year results for continuing operations unless otherwise stated, and reflect revisions to prior comparative financial information as detailed in NAB's ASX announcement on 22 April 2016 including the impact of the CYBG demerger.

- On a statutory basis, net loss attributable to the owners of NAB was $1.74 billion, a decrease of $5.18 billion. This reflects discontinued operations[2] losses, in particular the loss on demerger and Initial Public Offering (IPO) of CYBG PLC (CYBG) of $4.22 billion as previously disclosed in NAB's 2016 First Quarter Trading Update, combined with a charge of $801 million relating to provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG[3]. Excluding discontinued operations[2], statutory net profit increased 2.4% to $3.31 billion.
- Cash earnings[1] were $3.31 billion, an increase of 6.5%. The main difference between statutory and cash earnings relates to discontinued operations[2], treasury shares, and effects of fair value and hedge ineffectiveness.
- On a cash earnings basis:
    - Revenue increased 3.3%. Excluding gains from the UK Commercial Real Estate loan portfolio sale and SGA asset sales in the March 2015 half year, revenue rose 4.5%. Key impacts include increased lending balances, higher Group net interest margin (NIM), and stronger NAB Wealth net income, partly offset by weaker Markets and Treasury income[4]. Group NIM rose 1 basis point, reflecting benefits of repricing in home lending and deposits, partly offset by higher wholesale funding costs and competition for business lending.

---

[1] Refer to note on cash earnings on page 4 of this document.

[2] Included within discontinued operations is the post-tax (loss)/profit of the CYBG demerger and IPO and CYBG discontinued operations, combined with provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG. The comparative information also includes the post-tax profit/(loss) of Great Western Bank discontinued operations. Refer to Note 15 of the 2016 Half Year Results Announcement for further detail.

[3] Relates to claims that have been or are expected to be made by CYBG in connection with the Conduct Indemnity Deed between CYBG and NAB. These claims relate principally to an increase in CYBG's provision for PPI costs of £450m. The actual and expected claims will reduce the unutilised portion of the Conduct Indemnity to £689 million.

[4] Markets and Treasury income represents Customer Risk Management and NAB Risk Management income.

- Expenses rose 4.2%, reflecting investment in the Group's priority customer segments and increased technology and personnel costs.
- The total charge for Bad and Doubtful Debts (B&DDs) was $375 million, down $24 million or 6.0%. However, compared to the September 2015 half year, the total charge increased $26 million or 7.4% reflecting higher specific provision charges in Australian Banking relating to a small number of large single name exposures, combined with increased collective provision charges for NZ Banking given the continued challenging outlook facing the dairy industry.

- The Group's Common Equity Tier 1 (CET1) ratio was 9.7% as at 31 March 2016, a decrease of 55 basis points from September 2015 mainly reflecting the impact of the CYBG demerger and IPO, including the conduct indemnity. The Group's CET1 target ratio remains between 8.75% – 9.25%. As part of NAB's ongoing commitment to maintaining a strong and efficient capital position, NAB is considering issuance of a new ASX listed Additional Tier 1 capital security, subject to market conditions, including any competing supply.
- The interim dividend is 99 cents per share fully franked, unchanged from the 2015 interim and final dividends.
- The Group maintains a well diversified funding profile and raised $17.7 billion of term wholesale funding in the March 2016 half year across a range of markets. The weighted average term to maturity of the funds raised by the Group over the March 2016 half year was 4.7 years. The stable funding index was 89% at 31 March 2016.
- The Group's quarterly average liquidity coverage ratio as at 31 March 2016 was 125%.

Executive Commentary

"This is our first result squarely focused on our Australian and New Zealand business. It shows that delivering against our strategic priorities is producing results and laying the foundations for sustainable growth and returns. We have a clear plan and are executing it in a disciplined way," NAB Group CEO Andrew Thorburn said.

"We are focused on getting the basics right and serving our customers better. A year after adopting the Net Promoter Score (NPS)[5] we are seeing encouraging results. NAB has led the aggregate NPS outcomes of the major banks over the four months to March 2016 in our priority customer segments[6] of mortgages, debt free, micro business, small business and medium business. But there is still more to do.

"Good progress has been made improving the customer experience by enhancing our technology and digital offerings, as well as process improvements which make it easier for customers to deal with us. We are accelerating the delivery of digital initiatives, which during this period saw the launch of NAB Pay, the pilot of our digital hub for small banking customers called Business in One, and the launch of NAB Dash which streamlines the consumer-merchant experience. In addition, the Personal Banking Origination Platform has been rolled out across South Australia, the Northern Territory and Western Australia. This technology enables our customers to track applications online and receive SMS or email updates at key milestones. Our 2016 national roll out remains on track.

[5] Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

[6] Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<$1m), Small Business ($1m-<$5m) and Medium Business ($5m-<$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

"Our Australian businesses have performed well this period. Personal Banking continues to record strong revenue growth despite higher wholesale funding costs and some slowing in the growth rate of home lending. In Business Banking, revenue growth over the year has been encouraging, up 2%, with our investments in more bankers and enhanced tools and disciplines helping drive improved loan growth in our priority segments and higher margins over the March 2016 half year, combined with a five point lift in our aggregate SME NPS[5, 7] score over the six months to 31 March 2016 to first position against major bank peers.

"NAB Wealth has continued its track record of delivering significantly improved results since 2013. The long term partnership and sale of 80% of our Life Insurance business to Nippon Life is progressing well and remains on track for finalisation in the second half of calendar year 2016. This important transaction allows us to continue to provide insurance solutions to customers while improving Wealth returns for shareholders. In addition, we know there is strong upside for our Investments and Superannuation business from enhancing the customer experience and developing a closer relationship with our banking operations.

"Our NZ Banking business produced a solid result this period despite challenges facing the dairy industry. While we remain confident in the robustness of the underlying New Zealand economy, against a backdrop of sustained low milk prices we have taken a proactive approach to provisioning for future dairy impairments.

"The decisions we have made over the last two years have resulted in NAB being a stronger and simpler business. We are focused on improving returns in our Australian and New Zealand businesses and, while there is still more work to do, we have made good progress against our agenda," Mr Thorburn said.

<u>Business Unit Commentary</u>

Australian Banking cash earnings were $2,694 million, an increase of 5%. Revenue rose 4% reflecting higher lending volumes and improved NIM, partly offset by weaker Markets and Treasury income[4]. Expenses grew 6% due to performance based incentive normalisation, Enterprise Bargaining Agreement salary increases and higher project and technology costs. B&DD charges were $341 million, a decrease of 7% with lower collective provision charges including the non-repeat of an agriculture and resource sector overlay taken in the March 2015 half year partly offset by higher specific charges arising from a small number of large single name impairments.

NZ Banking local currency cash earnings declined 3% to NZ$404 million with higher B&DD charges the key driver. Revenue rose 2% with higher lending volumes partly offset by lower NIM. Expenses were well contained rising 2% and compared to the September 2015 half year declining 1%. B&DD charges increased by NZ$38 million or 83% as a result of higher collective provision charges mainly related to the dairy industry. Compared with the September 2015 half year B&DD charges declined 5%.

NAB Wealth cash earnings increased 12% to $249 million driven by stronger Insurance results. Net income rose 4% reflecting Insurance premium growth and pricing increases combined with improved claims expense and stable lapse performance. Expenses declined 1%, due to lower technology and project costs partly offset by an increase in the number of financial planners.

---

[7] SME NPS is a simple average of the NPS scores of the three priority business segments: Micro Business (<$1m), Small Business ($1m-<$5m) and Medium Business ($5m-<$50m). The SME NPS data is based on six month moving averages from DBM BFSM Research.

Group Asset Quality

The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances of 0.78% at 31 March 2016 compares to 0.63% at 30 September 2015 and 0.77% at 31 March 2015. Inclusion of A$522 million of New Zealand dairy impaired assets currently assessed as no loss based on security held accounted for 10 basis points of the increase in this ratio between 30 September 2015 and 31 March 2016.

The ratio of collective provision to credit risk weighted assets was 0.98% compared with 0.99% at 30 September 2015. The ratio of specific provisions to impaired assets was 36.4%[8] compared with 30.3% at 30 September 2015.

For further information:

Media

Meaghan Telford
M: +61 (0) 457 551 211

Jessica Forrest
M: +61 (0) 457 536 958

Investor Relations

Ross Brown
M: +61 (0) 417 483 549

Natalie Coombe
M: +61 (0) 477 327 540

DISCLAIMER – FORWARD LOOKING STATEMENTS

This announcement contains statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Annual Financial Report.

NOTE ON CASH EARNINGS

Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit/loss attributable to owners of NAB for the half year ended 31 March 2016 is set out on pages 2 to 7 of the 2016 Half Year Results Announcement under the heading "Profit Reconciliation".

The Group's results and Review of Divisional Operations and Results are presented on a cash earnings basis, unless otherwise stated. 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, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding discontinued operations and certain other items which are included within the statutory net profit attributable to owners of NAB. The Group's financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in Section 5 of the 2016 Half Year Results Announcement.

[8] Consists only of impaired assets where a specific provision has been raised and excludes New Zealand dairy exposures currently assessed as no loss based on security held.