National Australia Bank

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ASX ANNOUNCEMENT

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NAB Financial Year 2011 First Quarter Trading Update
Continued progress against strategy delivers solid first quarter result

Key points

Unless otherwise stated the quarterly average of the September 2010 half year results is used for comparison purposes.

- National Australia Bank unaudited cash earnings for the first quarter of the 2011 financial year were approximately $1.3 billion. Key drivers included improved revenue from banking operations in Australia, mark-to-market gains in the Specialised Group Assets (SGA) portfolio and a marginally lower charge for bad and doubtful debts.
- Group revenue increased due to continued volume growth in Personal Banking and moderate volume growth and repricing for current market conditions in Business Banking. Wholesale Banking revenue also improved. SGA benefited from a $49 million mark-to-market gain in the Synthetic Collateralised Debt Obligations (SCDO) portfolio.
- Group margin was slightly lower than the second half of the 2010 financial year, with increases from repricing for current market conditions offset by higher funding costs and product mix associated with strong mortgage volume growth.
- The Group delivered positive jaws between revenue and expense growth during the quarter.
- Asset quality improved marginally. The Group charge for bad and doubtful debts was lower at $493 million and included a $25 million overlay relating to floods in Central Queensland in December 2010. The overlay will be revised as we further assess the impact of this and subsequent natural disasters in Eastern Australia. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances improved slightly to 1.86%.
- For the financial year-to-date the Group has raised approximately $12.6 billion of unsecured term wholesale funding, against a 2011 full year target range of $25 billion to $30 billion. The weighted average term to maturity of the funds raised is 4.5 years. In addition, BNZ has raised approximately $1.4 billion of secured funding in covered bond format. The Stable Funding Index was 85% at 31 December 2010 compared to 84% at 30 September 2010.
- The Group maintained its strong and conservative liquidity position.
- The Group capital position also remains strong, with the Tier 1 ratio increasing to 8.96% from 8.91% at 30 September 2010. The Core Tier 1 ratio was 6.92%.

Executive Commentary

"The first quarter result is pleasing and reflects the progress we have been making against the Group's strategic priorities and the solid momentum this is delivering in our core Australian business," National Australia Bank Group CEO Cameron Clyne said today.

"Business Banking and Personal Banking were key drivers of Group revenue during the first quarter. Business Banking continues to gain market share and extend its leadership position in SME banking in what remains a subdued business credit environment. Personal Banking continues to experience strong momentum in mortgages and transaction accounts, and improved its product and service capabilities.

"Wholesale Banking had a positive performance as Markets income improved despite challenging market conditions. Wholesale Banking continues to make progress with its strategic repositioning, with several new mandates being won by Debt Capital Markets and Specialised Finance. Specialised Finance also won a number of industry awards.

"MLC & NAB Wealth has benefited from the improvement in financial markets over the quarter and continued integration benefits flowing from the Aviva acquisition. This has been offset to some extent by higher disability claims.

"Despite subdued economic conditions, New Zealand Banking improved earnings and maintained its track record as a consistent, tightly managed business. At the same time, United Kingdom Banking remained sound and resilient, operating within a difficult economic environment.

"Management of Group costs continued to be a focus.

"Asset quality measures remained stable, although this is still dependent on the continued improvement in economic conditions.

"The Group continues to maintain a strong balance sheet, with sound capital, funding and liquidity settings and remains well positioned to accommodate regulatory change," he said.

Business Commentary

Business Banking

Business Banking performed well with lending volumes up despite continued negative business system credit growth. Margins improved, reflecting repricing for current market conditions. Bad and doubtful debt charges were slightly lower.

Business Banking increased market share by 96 basis points to 23.8% while business system credit fell by 1.7%[1]. As part of Business Banking's commitment to realise further cross-sell opportunities 1,800 bankers completed targeted sales and service training.

Asset quality measures remained broadly stable although the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased marginally to 2.21% from 2.16% at 30 September 2010.

Personal Banking

Personal Banking revenue improved reflecting strong growth in mortgage volumes, with Group housing lending market share up 31 bps to 13.61%[2], continuing the momentum of the 2010 financial year. Customer acquisition remained a feature with robust transaction account growth and increased credit card applications.

Competition for deposits remained strong but solid growth continued in the quarter mainly through the UBank and iSaver products.

[1] Source: APRA Monthly Banking Statistics / NAB December 2010 vs September 2010 (Lending to Non – Financial Corporations, Acceptances of Customers).

[2] RBA financial system/NAB including Wholesale Banking data as at December 2010 vs September 2010.

Asset quality continues to improve and the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances fell from 0.71% at 30 September 2010 to 0.61% at December 2010.

MLC & NAB Wealth

MLC & NAB Wealth funds under management (FUM) increased during the quarter, albeit at lower margins as a result of changes in FUM mix. In the insurance business, premiums inforce increased as did claims, with higher personal disability but lower personal lump sum claims. Expenses were lower as synergies from the Aviva integration flowed through.

Over the year to September 2010, MLC's FUM (excluding Aviva) grew by 8.2%, above market growth of 2.7%[3] largely a result of flows into MLC's corporate superannuation business. MLC also maintained the number one market share position in individual risk[4] over this period. Advisor numbers increased by approximately 100 in the quarter with the buy-out of the majority interests in Meritum Financial Group, in which MLC acquired a minority stake as part of the Aviva acquisition.

Wholesale Banking

Although activity in key markets remained subdued, Wholesale Banking revenue improved.

Market conditions for the quarter continued to be challenging and were characterised by relatively low levels of volatility, reduced product margins and limited trading opportunities.

Asset quality measures continued to improve, but bad and doubtful debts rose in the quarter albeit off a very low base. The portfolio is stable with over 90% the equivalent of investment grade.

New Zealand Banking

New Zealand’s economic recovery remains fragile and system credit growth subdued. Nonetheless, New Zealand Banking continues to deliver consistent performance with a strong focus on deposit growth, repricing to reflect current market conditions and maintaining a strong cost discipline. During the quarter New Zealand Banking has grown its market share in mortgage lending, agribusiness and deposits.

The charge for bad and doubtful debts was slightly lower in the quarter. Specific charges for certain large corporate exposures have been made in the quarter but strong credit card collections and improvements in credit ratings have helped moderate the overall charge for the period. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased to 1.87% from 1.75% at 30 September 2010.

United Kingdom Banking

In the United Kingdom the economic outlook remains weak with slow recovery expected due in part to the economic impact of the spending cuts announced in October and ongoing financial uncertainty in the Euro-zone.

In this context, United Kingdom Banking remains well positioned although subdued demand for credit and low interest rates continue to restrict balance sheet and income growth.

There has been no significant change in credit quality. However, the delayed recovery has led to some deterioration in the asset quality ratio of 90+ days past due and gross impaired assets to gross loans and acceptances, which increased to 3.34% from 3.15% at 30 September 2010.

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[3] Plan for Life – September 2010 QDS, Retail (ex Cash).
[4] DEXX&R – Life Analysis, September 2010.

Specialised Group Assets

The results of Specialised Group Assets improved during the quarter due to a mark-to-market gain of $49 million in the SCDO portfolio in the first quarter and a lower charge for bad and doubtful debts. The performance of Specialised Group Assets remains closely linked to the recovery of the US and UK economies and related market conditions.

Group Asset Quality

The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was 1.86% at 31 December 2010 compared to 1.88% at 30 September 2010, primarily associated with ongoing improvement in asset quality measures in the Group's retail portfolios.

Collective provision balances of $3,551 million were slightly lower than 30 September 2010 largely associated with movements in foreign currency exchange rates. The collective provision coverage ratio was relatively stable at 31 December 2010. Specific provision balances were $1,491 million, and the specific provision coverage ratio was also relatively stable.

Total provision balances (including the credit risk adjustment on assets at fair value) as at 31 December 2010 were $5,042 million compared to $5,094 million at 30 September 2010.

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