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NAB 2014 Third Quarter Trading Update

Satisfactory performance despite challenging environment

Key Points

The quarterly average of the March 2014 Half Year results is used for comparison purposes unless otherwise stated.

- Unaudited cash earnings¹ rose to approximately \$1.6 billion, which is 7% up on the prior corresponding period and around 2% above the quarterly average of the March 2014 Half Year result. On a statutory basis, unaudited net profit attributable to the owners of the Company for the June quarter was approximately \$1.7 billion. The main difference between statutory and cash earnings relates to distributions and the elimination of treasury shares.
- On a cash earnings basis:
 - Revenue decreased by approximately 1% due mainly to lower markets income as subdued volatility reduced trading opportunities. This was partially offset by higher lending balances and a broadly stable customer margin².
 - Expenses fell 6%, but were flat after excluding the impact of UK customer conduct costs in the March 2014 Half Year.
 - The charge for bad and doubtful debts (B&DDs) for the quarter was \$241 million, down 9% due primarily to lower charges in Australian Banking and UK Banking.
- For the financial year to date, the Group has raised approximately \$23 billion of term wholesale funding. The weighted average term to maturity of the funds raised by the Group for the financial year to date was 5.1 years.
- The Group's Basel III Common Equity Tier 1 ratio was 8.46% as at 30 June 2014, lower than the ratio at 31 March 2014 mainly due to the impact of the interim 2014 dividend declaration. During the quarter NAB issued 11 million shares under the Dividend Reinvestment Plan.

Executive Commentary

"The Group achieved a satisfactory third quarter result. Costs were well contained and asset quality continues to improve. While revenue growth remains challenging, Australian home lending continues to achieve market share³ gains and Australian business loan growth improved in what is traditionally a stronger quarter," National Australia Bank Group CEO, Andrew Thorburn said today.

"As the new Group CEO I am extremely proud of the opportunity to lead this organisation. NAB has some real strengths and our Executive Leadership Team is focussed on driving

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

² Customer margin comprises the following components of net interest margin: lending margin, deposits, funding and liquidity costs and liability mix. It excludes lending mix and other components of net interest margin.

³ Source: RBA Financial System / NAB, as at June 2014.

better outcomes for customers and shareholders. In our core Australian and New Zealand franchises we have real opportunities ahead, including achieving sustainable growth in Business Banking, while continuing to deliver strong home loan growth and providing a better experience for customers.

“At the end of July this year we announced the sale of £625 million of UK commercial real estate loans. This was a pleasing result, and as we have previously said we will continue to look at opportunities to optimise return on equity by accelerating the sale of non-core assets.

“However, our UK operations still face a number of challenges. Conduct charges are difficult to predict, but we now expect that we will need to take further provisions at the Full Year result for both interest rate hedging products and Payment Protection Insurance (PPI). In addition, the Scottish Independence vote takes place on 18 September and a vote in favour of independence may give rise to significant additional costs and risks for Clydesdale Bank. We continue to closely monitor the situation and have appropriate contingency planning in place.

“Like all large businesses there are things we can do better at NAB and we will have more to say on this at our Full Year result on 30 October,” he said.

Business Commentary

Australian Banking cash earnings were broadly flat over the quarter with lower markets income offsetting continued good growth in mortgage lending and further falls in B&DD charges. Over the quarter home loan balances grew at an annualised rate of 8.5%. Growth in housing lending during the period represented 1.1x system⁴. Business lending balances⁵ grew at an annualised rate of 5.5% over the quarter with the growth strongest in Institutional lending. On an APRA basis, growth in business lending during the period represented 0.8x system⁶.

NAB Wealth cash earnings increased over the quarter benefiting from improved insurance claims results while lapses remained stable and the impact of higher FUM was offset by a mix change to lower margin wholesale investment business in the period.

NZ Banking local currency cash earnings rose over the quarter due to higher revenue from increased loan volumes and lower funding costs. Expenses were well managed while B&DD charges were stable.

UK Banking local currency cash earnings were lower in the quarter. Continued strong growth in the mortgage book and a lower charge for B&DDs was offset by a lower net interest margin largely reflecting timing of the Financial Services Compensation Scheme (FSCS) levy.

NAB UK CRE run-off portfolio reported a modest loss in the third quarter, which included a £6 million B&DD charge and no change to the NAB UK CRE overlay balance. The portfolio continues to decline with the balance reducing over the quarter from £3.3 billion to £3.0 billion. As announced on 28 July, NAB has agreed to sell a £625 million portfolio of mainly impaired loans for a small gain above the net book value, with these loans derecognised from NAB Group's balance sheet on that date.

Great Western Bank local currency cash earnings were lower over the quarter primarily due to revaluation of foreclosed properties and lower releases of provisions for B&DDs. The business remains fully deposit funded and asset quality indicators have improved.

⁴ Source: RBA Financial System / NAB, as at June 2014.

⁵ Business lending balances exclude Asia and Debt Markets.

⁶ Source: APRA Banking System March – June 2014.

Group Asset Quality

Group asset quality metrics improved over the quarter. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was 1.45% at 30 June 2014 compared to 1.52% at 31 March 2014.

The ratio of collective provision to credit risk weighted assets was 0.89% at 30 June 2014, compared to 0.91% at 31 March 2014. The ratio of specific provisions to impaired assets was 34.0% at 30 June 2014 as compared to 34.8% at 31 March 2014.

UK Customer Conduct Update

It is expected that an additional provision of at least £75 million will be required at the Full Year result in relation to increased costs of administering the PPI remediation program. Significant additional provisions for PPI redress are also likely to be required at the Full Year result in relation to new developments, including: the implementation of a new complaints handling process, which is likely to lead to increased payments both for new complaints and in revisiting closed complaints; the need to extend our examination of historical records dating back to pre-2000 periods, including unindexed microfiche records; higher than expected levels of new complaints; and the fact that Clydesdale Bank is subject to an enforcement process with the Financial Conduct Authority (FCA) in relation to its previous PPI complaints handling processes, the outcome of which is not yet known. The ability to reliably estimate the impact of these developments remains uncertain.

Based on redress calculations for completed reviews, and assuming redress calculations remain consistent, it is expected that an additional provision of at least £170 million will be required at the Full Year result in relation to interest rate hedging products. This is based on a range of developments, including further progress with reviews of in-scope tailored business loans (TBLs) and derivative products and the receipt and review of complaints on certain fixed rate TBLs that are out-of-scope of the redress program. The extent of future complaints on out-of-scope TBLs is uncertain.

There remains a wide range of uncertain factors relevant to determining the total costs associated with conduct related matters. A full assessment of related provisions will be made in the normal course as part of the finalisation of the 30 September 2014 Full Year results.

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Disclaimer

This announcement contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. 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 attributable to owners for the half year ended 31 March 2014 is set out on pages 2 to 7 of the 2014 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 and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. 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 2014 Half Year Results Announcement.