

**ASX ANNOUNCEMENT***Tuesday, 9 August 2011***NAB 2011 Financial Year June Quarter Trading Update  
Earnings growth continues. Good progress against strategic agenda.**Key Points

The quarterly average of the March 2011 half year results is used for comparison purposes unless otherwise stated.

- National Australia Bank unaudited cash earnings for the June quarter of the 2011 financial year were approximately \$1.4 billion. Despite challenging operating conditions the Group continued to deliver earnings momentum from revenue growth, careful management of costs and a gradual decline in the charge for bad and doubtful debts.
- Revenue momentum reflected growth in Business and Personal Banking in Australia and New Zealand Banking, partially offset by lower revenue from Wholesale Banking due to subdued operating conditions.
- Group net interest margin improved to 2.32% from 2.23% in the half year to March. Approximately half of this increase reflected the accounting treatment of Treasury activities<sup>1</sup>. The balance was a result of repricing through the March half year and some pricing and funding cost changes in the quarter.
- Disciplined management of expenses remained a focus and the Group delivered positive jaws for the quarter, with revenue growing faster than expenses. This was achieved whilst managing ongoing investment in the business and core infrastructure projects.
- Asset quality was broadly stable with some improvement in leading indicators. The charge for bad and doubtful debts was \$443 million or 0.41% of gross loans and acceptances compared to 0.43% at 31 March 2011<sup>2</sup>. This includes the write-back of half of the \$75 million Australian natural disasters provision overlay held as at 31 March 2011 as disaster related collective and specific provisions were taken in business units.
- From 1 October 2010 to 9 August 2011 the Group raised approximately \$29 billion of term wholesale funding (including secured 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 4.6 years. The Stable Funding Index was unchanged at 84% at 30 June 2011.
- The Group maintained strong and conservative liquidity settings.
- The Group capital position strengthened, with the Tier 1 ratio increasing to 9.43% from 9.19% at 31 March 2011. The Core Tier 1 ratio was 7.32%.

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<sup>1</sup> Accounting volatility between Net Interest Income and Other Operating Income related to hedging activity

<sup>2</sup> Annualised year to date ratios

## Executive Commentary

“NAB’s strategy continued to deliver earnings momentum during the June quarter, with contributions from each of the Group’s banking businesses in Australia, New Zealand and the United Kingdom,” National Australia Bank Group Chief Executive Officer Cameron Clyne said today.

“This was achieved despite considerable challenges including Australia’s multi-speed economy, subdued system credit growth and fragile consumer confidence in all the markets in which we operate, and concerns about US economic growth and European sovereign debt.

“Pleasingly, the growth in earnings was coupled with ongoing improvement in NAB’s reputation and employee engagement.

“Business Banking grew revenue and market share against a backdrop of lower business credit growth during the quarter. Personal Banking continued to perform well, with ongoing growth in customer numbers translating into revenue and earnings growth.

“Operating conditions for MLC & NAB Wealth were challenging with some weakness in equity markets. There was also a further increase in insurance claims. In Wholesale Banking, currency and interest rate markets provided limited trading opportunities, resulting in lower income. Customer demand for risk management products was moderate but cross-sell initiatives assisted in supporting sales.

“New Zealand Banking, despite the Christchurch earthquakes and slow recovery from recession, recorded sound earnings and revenue growth, with continued good expense management. UK Banking coped well with the slow credit environment with better than industry average growth in business lending and mortgages. Great Western Bank remained well positioned in the key agribusiness states, despite subdued economic conditions for the United States overall.

“Credit quality has stabilised and leading asset quality indicators have improved.

“The Group continues to strengthen balance sheet ratios,” Mr Clyne said.

## Business Commentary

### **Business Banking**

Although credit demand declined during the quarter<sup>3</sup>, Business Banking grew lending volumes and extended its leading market share lead<sup>4</sup> while carefully managing costs and improving net interest margin. Customer satisfaction improved overall, as well as in each of the key micro, medium and large business segments<sup>5</sup>.

Asset quality metrics remained stable with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances at 2.32% at 30 June compared with 2.31% at 31 March 2011. Charges for bad and doubtful debts were higher in the quarter as business conditions remained difficult and the business experienced some deterioration in existing categorised loans.

### **Personal Banking**

Personal Banking built on the momentum of the first half with strong customer acquisition across mortgage lending, transaction accounts and credit cards combined with good margin management and a further reduction in the gap to peers on customer satisfaction<sup>6</sup>. System credit growth slowed and competition, particularly in the mortgage market, increased during the quarter.

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<sup>3</sup> RBA Banking System data June 2011

<sup>4</sup> APRA June 2011 monthly banking statistics

<sup>5</sup> June 2011 DBM Consultants’ Business Financial Services Monitor

<sup>6</sup> Roy Morgan Customer Satisfaction June 2011

Asset quality was stable with the mortgage portfolio continuing to perform well. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances was 0.65% at 30 June 2011 compared with 0.66% at 31 March 2011.

### **MLC & NAB Wealth**

During the quarter, MLC's net flows were positive despite continued weakness in investor confidence and low discretionary flows across the sector. Funds Under Management (FUM) fell marginally during the quarter as weaker equity markets resulted in negative investment returns. Retail FUM market share was stable at 16.1% in the half year to 31 March 2011<sup>7</sup>. Market share of insurance premiums in force was broadly stable<sup>8</sup> while there was a slight deterioration in claims experience and an increase in lapses.

The Aviva integration continues to track ahead of expectations and advisor numbers increased again in the quarter.

### **Wholesale Banking**

Wholesale Banking income was below the average of the first half within the trading businesses reflecting a lack of direction in interest rate and currency markets. Client demand for risk management products remained moderate but cross-sell initiatives assisted in supporting sales. Costs were well controlled. Momentum in the Specialised Finance and Capital Markets businesses remained positive.

### **New Zealand Banking**

New Zealand Banking performed well although lending volume growth in the business sector remained subdued<sup>9</sup>. Customers switching from fixed to variable rate mortgages continued to support margins. The focus on growing customer deposits continued and the recent Australian covered bond issue further increased term funding and diversification. The charge for bad and doubtful debts improved although risks remain, particularly in the business sector. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances reduced from 1.96% at 31 March 2011 to 1.76% at 30 June 2011.

### **United Kingdom Banking**

Despite recent deterioration in economic conditions, United Kingdom Banking continued its gradual improvement in performance in the June 2011 quarter. Demand for credit remained subdued, but above system growth in both business lending and mortgages was achieved<sup>10</sup>. Asset quality was relatively stable but remains sensitive to economic conditions. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances decreased to 3.27% at the 30 June 2011 from 3.44% at 31 March 2011. The charge for bad and doubtful debts was also lower.

### **Great Western Bank**

Great Western Bank (GWB) continued to experience subdued customer demand for credit. It remained fully deposit funded while focussed on organic growth and leveraging the distribution acquired from F&M Bank and TierOne Bank in the second half of 2010.

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<sup>7</sup> Plan for Life, Aust. Retail and Unitised Wholesale Investments Market Share and Dynamics Report, March 2011

<sup>8</sup> Dextx&R Life Analysis, March 2011

<sup>9</sup> Reserve Bank of New Zealand June data

<sup>10</sup> Bank of England June data

## **Specialised Group Assets**

The Specialised Group Assets portfolio was stable during the quarter while also closely linked to the state of the US and UK economies and related market conditions.

As announced at the March 2011 half year, post the end of the half year, the risk associated with three Synthetic Collateralised Debt Obligations (SCDO) assets was exited. Since then, management has continued to explore opportunities to exit the risk associated with the remaining three SCDO assets, with one of the remaining three being exited more recently. An SCDO mark-to-market gain of \$17 million was included in the June quarter cash earnings.

## **Group Asset Quality**

The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was 1.85% at 30 June 2011 compared to 1.92% at 31 March 2011.

The collective provision balance of \$3,482 million was stable and the collective provision coverage ratio was slightly higher due to a decrease in credit risk weighted assets. The specific provision balance was \$1,444 million and the specific provision coverage ratio increased slightly to 23.3%.

Total provision balances (including the credit risk adjustment on assets at fair value) as at 30 June 2011 were \$4,926 million compared to \$4,907 million at 31 March 2011.

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