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Friday, 11 August 2017

ASX Announcement

NAB 2017 Third Quarter Trading Update

Key points

The June 2017 quarter results are compared with the quarterly average of the March 2017 Half Year results for continuing operations unless otherwise stated. Cash and statutory earnings are rounded to the nearest $50 million.

Highlights

- Unaudited statutory net profit of $1.6 billion.
- Unaudited cash earnings[1] of $1.7 billion, up 2% versus March 2017 Half Year quarterly average and 5% versus prior corresponding period.
- Cash earnings growth reflects improved revenue growth and stronger asset quality.

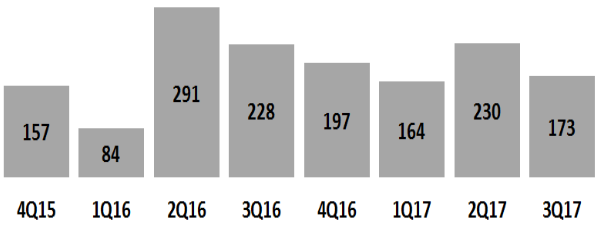
Revenue and expenses[1]

- Revenue up 2%, with growth in lending and improved Group net interest margin (NIM) partly offset by lower Markets and Treasury income[2].
- Higher Group NIM largely reflects loan repricing and more favourable funding conditions.
- Expenses up 2%, or 1% excluding redundancies, due to increased investment spend.

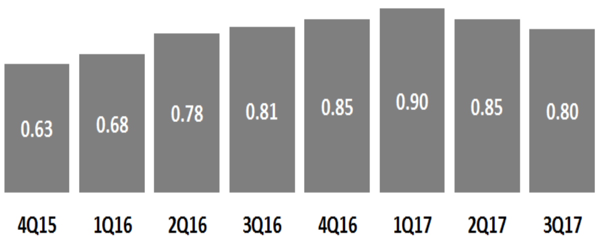
Asset quality[1]

- Bad and doubtful debt charges (B&DDs) fell 12% to $173 million, reflecting improved asset quality trends and non-repeat of the collective provision overlay for commercial real estate raised in the March 2017 Half Year.
- Ratio of 90+ days past due (DPD) and gross impaired assets (GIAs) to gross loans and advances (GLAs) of 0.80% declined 5 basis points (bps) from March 2017 mainly reflecting improved conditions for New Zealand dairy customers.

B&DD Charge ($m)



90+DPD & GIAs/GLAs (%)

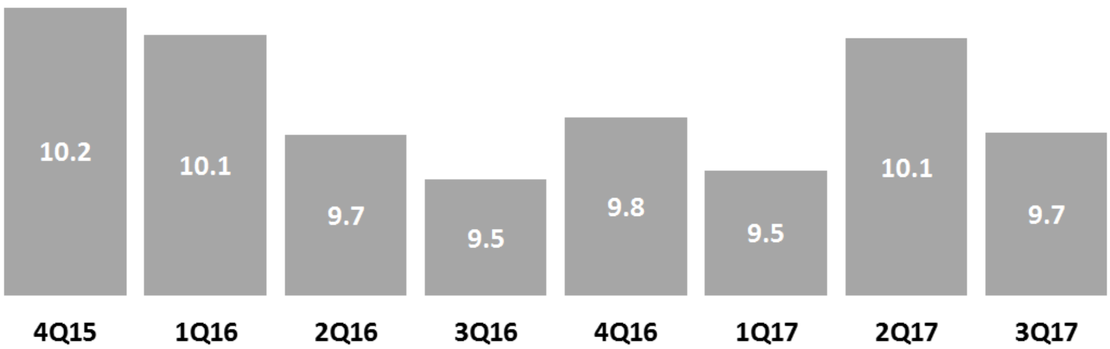


[1] Refer to note on cash earnings on page 3. Revenue, expenses and asset quality are reported on a cash earnings basis.
[2] Markets and Treasury income represents Customer Risk Management and NAB Risk Management income.

Capital, funding and liquidity

- Group Common Equity Tier 1 (CET1) ratio of 9.7%, compared to 10.1% at March 2017 mainly reflecting the impact of the interim 2017 dividend declaration and 17 bps for higher risk weights due to previously advised mortgage model changes.
- Leverage ratio of 5.3% (APRA basis).
- Liquidity coverage ratio (LCR) quarterly average of 127%.
- Net Stable Funding Ratio (NSFR) of 108%.

CET1 Ratio (%)[3]



Executive Commentary

“This is a strong result which reflects continued discipline and focus. Cash earnings and revenue are both higher, asset quality has improved and our capital and funding positions remain sound,” said NAB Group CEO Andrew Thorburn.

“It is reassuring to have our business performing well and our balance sheet settings sound during a period of significant and ongoing regulatory change. The major bank levy became effective from 1 July 2017 and is estimated to cost NAB approximately $375 million annually, or $265 million post tax, based on our 30 June 2017 liabilities. Separately, in July, the Australian Prudential Regulation Authority (APRA) announced a CET1 ratio target of at least 10.5% by January 2020 for major banks to be viewed as ‘unquestionably strong’, with finalisation of international capital reforms not expected to require any further increases to Australian requirements. NAB expects to meet APRA’s new capital requirements in an orderly fashion given the existing capital position and the timelines involved.

“Our commitment to reshaping and simplifying our business is delivering better outcomes, with cost growth continuing to moderate since the December 2016 quarter. For this full year we remain confident of achieving more than $200 million in productivity savings and, excluding the impact of the bank levy, expect to deliver positive ‘jaws’.

“Looking forward we expect to accelerate a range of productivity and growth initiatives, including greater use of digital solutions, ‘customer journeys’ and streamlined work practices. While the benefits from these initiatives are potentially significant, this needs to be balanced with increased investment.

[3] CET1 ratios are as reported and have not been adjusted for the sale of discontinued operations.

"The Australian and New Zealand economies remain resilient with solid growth supported by strong population growth and low unemployment. Australian business conditions rose again in the June quarter to their highest level since early 2008, with broad based strength across industries. However, the household sector faces some challenges with high levels of household debt, muted wages growth and subdued consumer sentiment.

"Against this backdrop we remain focused on executing against our strategic priorities to ensure we can grow in a sustainable way while managing our business responsibly for all stakeholders," Mr Thorburn said.

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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 attributable to owners of NAB for the half year ended 31 March 2017 is set out on pages 2 to 7 of the 2017 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 2017 Half Year Results Announcement.