National Australia Bank Limited
ABN 12 004 044 937
800 Bourke Street
Docklands Victoria 3008
AUSTRALIA
www.nabgroup.com

Thursday, 30 October 2014

NAB 2014 Full Year Results

Strong asset quality and sound core franchise

Key Points

Results for the 30 September 2014 full year are compared with 30 September 2013 full year unless otherwise stated.

- On a statutory basis, net profit attributable to owners of the Company was $5.30 billion, a decrease of $60 million or 1.1%.
- Cash earnings[1] declined to $5.18 billion, which is 9.8% below the September 2013 full year due to earnings adjustments announced on 9 October 2014 relating to UK conduct provisions, capitalised software impairment, deferred tax asset provisions and R&D tax policy change totalling $1.5 billion after tax for the 30 September 2014 full year. For purposes of comparability, cash earnings for the September 2013 full year have also been restated for inclusion of UK payment protection insurance (PPI) conduct costs in cash earnings. Excluding these adjustments and prior period UK conduct costs relating to PPI and interest rate hedging products (IRHP), cash earnings rose 12.4% over the year. The main difference between net profit attributable to owners of the Company on a statutory basis and cash earnings relates to distributions.
- On a cash earnings basis:
  - Revenue increased by approximately 1.9% with higher lending balances, partly offset by a lower net interest margin (NIM) and weaker Markets and Treasury[2] income. Excluding the impact of changes in foreign exchange rates revenue declined 1.1%.
  - Expenses rose 21% due to the impact of higher UK conduct provisions, capitalised software impairment and R&D tax policy change. Excluding these items and prior period UK conduct charges relating to PPI and IRHP, expenses rose 4.5% over the year or 0.7% excluding the impact of changes in foreign exchange rates.
  - Improved asset quality and deliberate portfolio choices made over recent years have resulted in a total charge to provide for bad and doubtful debts (B&DDs) for the year of $877 million, down 54.7% on 30 September 2013 due primarily to lower charges in Australian Banking and NAB UK CRE. The charge includes a $50 million release from the Group economic cycle adjustment and $99 million release from the NAB UK CRE overlay.
- The Group maintains a well diversified funding profile and has raised approximately $28.2 billion of term wholesale funding (including $7 billion secured funding) in the 2014 financial year. The weighted average term to maturity of the funds raised by the Group over the 2014 financial year was 5.1 years. The stable funding index was 90.4% at 30 September 2014, a 1.2 percentage point increase on 30 September 2013.

---

[1] Cash earnings is not a statutory financial measure and does not represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. Refer to note on cash earnings on page 4 of this document.

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

- The Group's Basel III Common Equity Tier 1 (CET1) ratio was 8.63% as at 30 September 2014, an increase of 20 basis points from 30 September 2013 and broadly stable compared to 31 March 2014. As announced in the March 2014 half year results, the Group will target a CET1 ratio of 8.75% - 9.25% from 1 January 2016, based on current regulatory requirements.
- The final dividend has been maintained at 99 cents, fully franked, and a dividend reinvestment plan (DRP) discount of 1.5% will be offered with no participation limit. NAB has entered into an agreement to have the DRP on the final dividend partially underwritten to an amount of $800 million over and above the expected participation in the DRP. Assuming a DRP participation rate of 35%, these initiatives will provide an expected increase in share capital of approximately $1.6 billion, which is equivalent to a 44 basis point increase in NAB's CET1 ratio.

Executive Commentary

"While our Australia and New Zealand franchises are in good shape, it is disappointing to record a full year result that includes $1.5 billion after tax in UK conduct provisions and other impairments," NAB Group Chief Executive Officer Andrew Thorburn said.

"We know there is value in focusing on the core business and in building a strong Australian and New Zealand franchise with real clarity around a customer-focused strategy that is executed well. Our Executive Leadership Team is focused on delivering a better experience for our customers and better returns for our shareholders.

"Within the Australian Banking business I am pleased with the ongoing momentum in Personal Banking and the more stable performance from Business Banking in the second half of this year. Excluding the more volatile Markets and Treasury income, Australian Banking revenue grew 1.8% over the September 2014 half year. A further reduction in the charge for B&DDs reinforces the benefits of our strategy to reduce the Australian lending risk profile.

"While satisfied with the progress our Australian business is making, there is more we can do. It is essential we continue to invest in core businesses where we have real competitive advantage, especially housing lending and, in Business Banking our SME, agriculture, government and education, and health franchises. More broadly, we have a number of solid businesses from which to build a stronger bank.

"NAB Wealth has also had an improved year, recording cash earnings growth of 13.4% off the back of strong growth in Investment earnings and an increase in Insurance earnings. Wealth products are an essential part of our customer offering, however returns are below acceptable levels and as a result we are evaluating a number of options to improve the returns of this business.

"Technology is a critical enabler of our business, which is why I am pleased to announce that over 2015 and 2016 the benefits of our banking platform upgrade will become increasingly apparent to our retail banking customers and around one third of our business customers who take out new personal banking products. Benefits include a single application for multiple products, loan application progress checked on-line or via regular updates and faster approval times. Our staff will also benefit from less or no data entry and straight through processing. Future decisions on how we invest in technology will be based on what our customers need, what we can afford and what is doable.

"Pleasingly we have also made good progress on legacy assets and have been able to accelerate our exit from non-core businesses. In July we announced the partial sale (£625 million) of the NAB UK CRE portfolio and in October began the sale process of Great Western Bank with the IPO of a 31.8% stake.

"Our clear focus is on our Australian and New Zealand franchises and providing a better customer experience, and as a result we need greater urgency dealing to our remaining low returning assets. In relation to exiting UK Banking this means we are now examining a broader range of options including those provided by public markets.

"We are very clear on our priorities for the next year and will focus our energy and resources on improving our customers' experience, building better momentum in priority segments of our Australian Banking business, maintaining our balance sheet strength, accelerating progress on our low returning assets and closing the ROE gap to peers."

Business Commentary

Australian Banking cash earnings were flat on the September 2013 full year at $4.9 billion, with modest revenue decline and higher expenses offset by further falls in the charge for B&DDs. Revenue fell 1.4% reflecting lower Markets and Treasury income and lower NIM given competitive pressure. Volume growth was solid, underpinned by ongoing market share gains in housing lending and a slight improvement in business lending growth. Excluding the impact of Markets and Treasury income, revenue fell 0.6% over the year but increased 1.8% over the six months to September 2014. Expenses rose 3.7% over the year with increased project spend and volume related growth, but were stable over the half year.

NAB Wealth cash earnings increased 13.4% on the September 2013 full year to $365 million driven largely by higher Investment earnings, with strong growth in funds under management partly offset by lower margins reflecting a shift in the mix of new business. Insurance earnings also increased over the year benefitting from improved claims and stable lapse performance. Inforce premiums grew 4.9% mainly due to improved pricing in Group insurance products. Closer integration with Australian Banking continues to gain traction with accelerating growth in sales of Masterkey Business Super via Business Banking channels and improved sales capability in the Retail network driving higher cross sell rates.

NZ Banking local currency cash earnings rose 2.4% on the September 2013 full year to NZ$807 million reflecting revenue growth and well contained expense growth. Business lending experienced steady growth, and there was a solid pick-up in housing lending growth in the September 2014 half year. Asset quality metrics improved and the charge for B&DDs fell over the year, but increased over the six months to September 2014 due to a small increase in specific charges.

UK Banking local currency cash earnings[3] rose strongly over the year to £158 million reflecting a materially lower charge for B&DDs consistent with steady improvements in the UK economy. Revenue remains subdued with strong growth in housing lending and higher margins benefitting from reduced funding and deposit costs, offset by lower business lending and weaker fee income. Lower margins compared with the March 2014 half year reflect timing of the Financial Services Compensation Scheme (FSCS) levy. Operating expenses were well managed despite increased marketing and project-related expenditure.

The NAB UK CRE run-off portfolio reported local currency cash earnings of £23 million in the September 2014 full year compared with a £239 million loss in the prior year. The major driver of the improved performance was a significantly reduced loan loss charge which included a £55 million release from the NAB UK CRE overlay of which £30 million occurred in the September 2014 half year. The result also benefited from a small gain on the sale of a £625 million portfolio of mainly impaired loans, as previously announced. The portfolio continues to decline with the balance reducing by £1.1 billion over the six months to September 2014 to £2.2 billion.

[3] UK Banking cash earnings exclude conduct charges relating to PPI and IRHP which are included in Corporate Functions and Other.

IFRS 9 impacts

In July 2014 the accounting standard IFRS9 was issued and the Group has the intention of early adopting the Australian equivalent standard AASB 9 from 1 October 2014. Adoption of AASB 9 will have the impact of increasing our Provision for Doubtful Debts for amortised and fair value loans with a corresponding adjustment through retained earnings, resulting in an increase in the collective provision coverage ratio. Additionally the Group will reclassify certain assets including those in the Held to Maturity and Available for Sale categories to Fair Value, again with adjustments taken through retained earnings. Implementation remains contingent upon a number of items including the issue of AASB 9 by the Australian Accounting Standards Board expected shortly.

Group Asset Quality

Group asset quality metrics continued to improve over the period. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances of 1.19% at 30 September 2014 is 33 basis points lower compared to 31 March 2014 and 50 basis points lower compared to 30 September 2013.

The ratio of collective provision to credit risk weighted assets was 0.83% at 30 September 2014 compared to 0.91% at 31 March 2014, with drivers of this decline including improved asset quality, continued growth in housing lending and release from the Group economic cycle adjustment of $50 million during the period. The ratio of specific provisions to impaired assets was 35.3% at 30 September 2014 as compared to 34.8% at 31 March 2014.

For further information:

Media

Brian Walsh
M: +61 (0) 411 227 585

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

Investor Relations

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

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

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 is set out on pages 2 to 8 of the 2014 Full 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. Section 5 of the 2014 Full Year Results includes the Consolidated Income Statement of the Group, including statutory net profit attributable to owners of the Company. The Group's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards will be published in its 2014 Annual Financial Report on 17 November 2014.