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ASX ANNOUNCEMENT

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NAB 2013 Third Quarter Trading Update

A solid result and delivering on strategy

Key Points

The quarterly average of the March 2013 Half Year results is used for comparison purposes unless otherwise stated.

- Unaudited cash earnings[1] rose to approximately $1.5 billion, which is around 2% above the quarterly average of the March 2013 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 fair value and hedge ineffectiveness.
- On a cash earnings basis:
    - Revenue increased by approximately 1% reflecting good growth in mortgages and some improvement in customer margin[2];
    - Expenses rose 2% over the period including upfront implementation costs relating to previously announced changes to the Group's organisational structure and operating model, and increased provisions for UK conduct and redress matters;
    - The charge for bad and doubtful debts (B&DDs) for the quarter was $489 million, down 10% due to lower charges in Business Banking and UK businesses.
- For the financial year to date, the Group has raised approximated $23.2 billion of term wholesale funding (including approximately $7.1 billion of secured funding). The weighted average term to maturity of the funds raised by the Group for the financial year to date was 4.9 years. Over the quarter, the Group funded all loan growth with customer deposits.
- The Group's Basel III Common Equity Tier 1 ratio was 7.97% as at 30 June 2013, lower than the ratio at 31 March 2013 mainly due to the impact of the interim 2013 dividend declaration in May 2013. During the quarter NAB purchased $300 million of its shares on-market to partially satisfy its obligations under the Dividend Reinvestment Plan.

Executive Commentary

"NAB has produced a solid third quarter result reflecting strong momentum in Personal Banking and lower loan losses in our UK businesses", National Australia Bank Group CEO, Cameron Clyne said today.

"We've marked the fourth year of our Fair Value agenda, leading the industry in making banking fairer, simpler and more affordable, and improving the strength and sustainability of our Australian business. The success of that strategy remains evident in our Personal Banking business which continues to benefit from mortgage market share gains. While

[1] Refer to note on cash earnings on page 3 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.

operating conditions for Business Banking are challenging, with ongoing weak confidence and subdued volumes, NAB remains strongly committed to supporting business customers.

“In the UK, we continue to deliver against the strategy we outlined in April 2012. Progress on simplification of our UK Banking business has been pleasing, with efficiency benefits ahead of plan. We have also achieved further run-off in the UK Commercial Real Estate portfolio with the current balance of £4.4bn down £1.2bn since its transfer to National Australia Bank Limited in October 2012.

“Our Group Strategy and Technology update presented in March 2013, is aimed at ensuring we are able to meet the long term needs of our customers and achieve efficiency gains. Changes to our structure and operating model are currently tracking ahead of plan, and our technology transformation is progressing well.

“Costs were tightly managed during the period. In Australia, excluding upfront implementation costs relating to the changes to the Group’s organisational structure and operating model, operating expenses were flat,” he said.

Business Commentary

Business Banking cash earnings were flat on the quarter with lower revenues, reflecting continued subdued demand for credit, offset by a fall in the charge for B&DDs. Asset quality metrics were broadly stable over the period.

Personal Banking cash earnings were higher in the quarter benefiting from stronger revenue, reflecting good growth in mortgage lending, and well managed costs. During the quarter, mortgage volumes continued to grow above system and market share increased to 15.3%[3].

Wholesale Banking cash earnings were slightly lower in the quarter following a particularly strong first half. Revenue was lower with less customer activity and the risk businesses benefiting from narrowing credit spreads in the first half of the year.

NAB Wealth cash earnings before IoRE[4] were broadly stable in the quarter. Insurance claims were higher with unfavourable experience in group and lump sum partially offset by lower disability claims. The Investment business benefited from higher funds under management (FUM), stronger earnings in Private Wealth and the sale of the Group’s interest in AREA Property Partners (a US based fund manager). FUM increased by $2.2 billion or 1.6% reflecting strong investment market returns.

NZ Banking cash earnings increased over the quarter with a lower B&DD charge and stable asset quality metrics. Volume growth was strong but has been offset by increased competition and customer preference for lower margin fixed rate mortgage products.

UK Banking cash earnings were broadly stable in the quarter. Higher income and a lower charge for B&DDs were offset by an increase in expenses largely related to further provisions raised for conduct and redress matters. Consistent with past disclosures, there remains a wide range of uncertain factors that are relevant to determining losses incurred in relation to these conduct and redress matters. Asset quality metrics in UK Banking improved slightly.

Cash earnings in NAB UK Commercial Real Estate improved in the quarter with a lower charge for B&DDs and higher income. The run-off of the portfolio continued ahead of plan with the balance declining from £5.0 billion at March 2013 to £4.4 billion at June 2013. Net of provisions, the outstanding balance is now £3.9 billion.

Great Western Bank cash earnings were slightly higher over the quarter benefiting from lower expenses and a lower charge for B&DDs.

3 RBA Financial System, NAB June 2013
4 Investment earnings on shareholders’ retained profits and capital in the life business

Group Asset Quality

Group asset quality metrics remained broadly stable over the quarter excluding the impact of exchange rates. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was 1.78% at 30 June 2013 compared to 1.74% at 31 March 2013.

The ratio of collective provision to credit risk weighted assets was 0.97% at 30 June 2013, down from 0.99% at 31 March 2013. The ratio of specific provision to impaired assets was 31.5% at 30 June 2013 as compared to 32.9% at 31 March 2013.

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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 2013 is set out on pages 2 to 7 of the 2013 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 2013 Half Year Results Announcement.