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ASX ANNOUNCEMENT

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NAB 2012 First Quarter Trading Update
Solid result in more difficult operating conditions

Key Points

Unless otherwise stated the quarterly average of the September 2011 half year results is used for comparison purposes.

- National Australia Bank Ltd (NAB) unaudited cash earnings for the first quarter of the 2012 financial year were approximately $1.4 billion. This was a solid result reflecting increased revenue and was achieved despite challenging operating conditions which included higher deposit and wholesale funding costs, subdued credit demand and an increased charge for bad and doubtful debts.
- On a statutory basis, unaudited net profit attributable to the owners of the Company for the first quarter was approximately $1.6 billion. The difference between statutory and cash earnings was largely a result of mark-to-market gains on fair value and hedge ineffectiveness[1].
- Growth in revenue was driven by Wholesale Banking and to a lesser extent, MLC & NAB Wealth. Revenue in Business and Personal Banking was relatively flat with higher funding costs largely offset by volume growth. Higher funding and deposit costs also contributed to a decline in revenue in UK Banking. As a result the Group's first quarter net interest margin fell to 2.19% from 2.28% in the half year to 30 September 2011.
- Positive jaws of 3.8% were achieved in the first quarter, with revenue continuing to grow faster than expenses. The Group remains focused on sustainable productivity improvements whilst maintaining investment in core infrastructure projects.
- The charge for bad and doubtful debts for the quarter increased to $545 million[2] or 0.45% of gross loans and acceptances (GLA) compared to 0.35%[3] of GLA for the second half of the 2011 financial year. The main driver of the higher charge for bad and doubtful debts was in UK Banking where operating conditions became increasingly difficult. The charge for bad and doubtful debts also increased in Wholesale Banking and Specialised Group Assets (SGA) due to provisions raised on predominantly UK-based exposures. Leading asset quality indicators for the Group were stable.
- For the financial year to date the Group has raised approximately $7 billion of term wholesale funding (including approximately $4 billion of covered bonds). The weighted average term to maturity of the funds raised was 4.7 years.
- The Stable Funding Index (SFI) was 84% at 31 December 2011 compared to 85% at 30 September 2011. The Group maintained conservative liquidity settings.
- The Group capital position improved with the Tier 1 ratio at 10.02% compared to 9.70% as at 30 September 2011. The Core Tier 1 ratio was 7.89%.

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1 Fair value and hedge ineffectiveness represents volatility on instruments measured at fair value which are income neutral over their full term. Distributions on hybrid equity instruments (which are included in cash earnings) were offset by movements relating to Treasury shares, amortisation of intangibles and integration expenses (which are not included in cash earnings). Refer note on cash earnings on page 4.
2 On a statutory basis, bad and doubtful debts were $599 million. The difference predominantly related to charges on the SCDO portfolio fully recovered through other operating income.
3 Annualised ratios.

Executive Commentary

"National Australia Bank has recorded a solid performance for the first quarter of the 2012 financial year in what has been a more challenging environment. There was steady progress against NAB's strategic priorities and earnings growth, revenue momentum and good cost management remained features of the Group's performance," National Australia Bank Group CEO, Cameron Clyne said today.

"Higher deposit and wholesale funding costs, softening credit growth and fragile economic conditions continued to be key characteristics of the operating environment in most of the regions in which NAB operates.

"It is clear that the UK economy is likely to experience a much longer period of subdued growth with the ongoing sovereign debt crisis in the Euro-zone and the continuing austerity program by the UK government. UK GDP declined by 0.2%[4] in the December quarter. These difficult conditions have adversely affected the performance of UK Banking. Given our view that recovery is now a longer term prospect, NAB has commenced a strategic review, and will work with UK management to appropriately reposition its business mix and structure for the changed economic environment and improve returns. We will inform the market of the outcomes of the review, which we expect to occur by the time of our interim result in May 2012.

"Our ongoing focus on NAB's Australian franchise continues to deliver pleasing results. Personal Banking has maintained strong mortgage flows relative to system, good growth in transaction accounts and continued improvement in customer satisfaction levels[5]. Business Banking retained its position as Australia's leading business bank by lending market share[6].

"Our strategy to focus on the Australian franchise, continue to build balance sheet strength, reduce cost and complexity, and improve reputation has ensured the Group's position has strengthened. As a result, NAB is well placed despite the range of external headwinds," he said.

Business Commentary

Business Banking

Despite subdued system credit growth and higher funding costs adversely affecting net interest margin, Business Banking revenue was stable. Other operating income increased as the focus on cross-sell drove an increase in sales of risk products through Wholesale Banking.

Asset quality measures remained broadly stable with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances decreasing marginally to 2.28% at 31 December 2011 from 2.29% at 30 September 2011. The charge for bad and doubtful debts was in line with the 2011 second half quarterly average.

Personal Banking

Personal Banking continued to grow mortgage volumes and increase market share, growing at 2.42 times system[7] and continued to attract new transaction account customers. The increased cost of wholesale and deposit funding adversely affected net interest margin in the quarter.

Asset quality measures were relatively stable, but the charge for bad and doubtful debts was slightly higher due to largely seasonal variances in the unsecured portfolio. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased marginally to 0.59% at 31 December 2011 from 0.57% at 30 September 2011.

4 Office for National Statistics, December 2011
5 Roy Morgan Research
6 RBA Financial System, NAB December 2011, lending market share
7 RBA Financial System, NAB December 2011

Wholesale Banking

Revenue increased strongly driven by improved sales in the customer businesses and better trading opportunities in the risk businesses. Client demand for risk management products increased and the focus on cross-sell to business banking customers continued to gain traction.

The charge for bad and doubtful debts was higher mainly due to provisions raised against two customers.

MLC & NAB Wealth

MLC & NAB Wealth funds under management increased during the quarter driven by an improvement in financial markets and the acquisition of Aviva Investors Australia by nabInvest, the Group's direct asset management business. This was partially offset by net outflows as investors remained cautious. Premiums in-force increased in the insurance business and claims experience has also improved over the last half.

New Zealand Banking

New Zealand Banking continued to deliver solid performance reflecting its ongoing focus on deposit growth and strong cost discipline in a slowly recovering economy. Revenue momentum has been supported by higher fee income and increased sales of risk management products for business banking customers. Net interest margin remained broadly stable for the period.

The charge for bad and doubtful debts has decreased reflecting a reduction in specific provision charges. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances decreased to 1.40% at 31 December 2011 from 1.51% at 30 September 2011.

United Kingdom Banking

Operating conditions deteriorated during the quarter resulting in lower earnings. Net interest margin declined due to increased wholesale funding costs, higher deposit costs and increased liquid asset holdings. Lending activity was subdued and fees were lower as a result of a further slowdown in economic activity. Expenses continued to be well managed.

The charge for bad and doubtful debts was higher at 1.27% of gross loans and acceptances on an annualised basis in the quarter compared to 0.86% for the September half year, reflecting deteriorating conditions for UK Banking customers and a reduction in collateral values. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased from 3.12% at 30 September 2011 to 3.22% at 31 December 2011.

Great Western Bank

Great Western Bank recorded good organic loan growth and remained fully deposit funded. In line with the industry, margins reduced. There was an improvement in asset quality with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances decreasing to 4.02% as at 31 December 2011 from 4.81% at 30 September 2011[8].

Specialised Group Assets

The SGA performance remains closely linked to the state of the US and UK economies and despite increasingly difficult economic conditions in the UK, the SGA portfolio was stable during the quarter. The charge for bad and doubtful debts for the quarter was higher, with small top-up provisions taken against a number of UK-based exposures.

The SCDO mark-to-market was a $1 million loss for the quarter. We will continue to explore opportunities to exit the risk on these assets when appropriate.

8 The 90+ days past due and gross impaired assets to gross loans and acceptances ratio includes the acquired TierOne assets covered by the FDIC loss share agreement as announced on 5 June 2010 as part of the acquisition of the TierOne portfolio.

Group Asset Quality

The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was stable at 1.78% at 31 December 2011 compared to 1.77% at 30 September 2011. The ratio of watch loans to gross loans and acceptances continued to fall during the quarter.

The collective provision balance[9] was $3,392 million as at 31 December 2011 compared with $3,398 million as at 30 September 2011. Collective provision coverage ratio was stable.

The specific provision balance[9] was $1,714 million as at 31 December 2011, and the specific provision coverage ratio was 27.3%.

Total provision balances[9] as at 31 December 2011 were $5,106 million compared to $4,944 million at 30 September 2011.

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Note on Cash Earnings

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. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the company. A definition of cash earnings, discussion of non-cash earnings items, and a full reconciliation of the 2011 full year cash earnings to statutory net profit attributable to owners of the company, is included on pages 21, 143-146 and 152 of the 2011 Full Year Results dated 27 October 2011. The Group's audited financial statements, prepared in accordance with Corporations Act 2001 (Cth) and Australian Accounting Standards, are included in the 2011 Annual Financial Report dated 11 November 2011.

9 On a statutory basis, the provision for doubtful debts excludes credit risk adjustment on assets at fair value. The balances on a statutory basis at 31 December 2011 were $2,438 million for collective provision, $1,638 million for the specific provision resulting in a total provision for doubtful debts of $4,076 million.