



Bank of New Zealand

Investor Presentation
June 2015



Important notice

This document is a visual aid accompanying a presentation to analysts by Anthony Healy, Managing Director and Chief Executive Officer BNZ, Adrienne Duarte, Chief Financial Officer BNZ, and Peter Whitelaw, Chief Risk Officer BNZ on 5 June 2015. It is not intended to be read as a stand-alone document. It contains select information, in abbreviated or summary form, and does not purport to be complete. It is intended to be read by a sophisticated investor audience familiar with National Australia Bank Limited (**Company**) and its March 2015 Half Year Results, and to be accompanied by the verbal presentation. This document should not be read without first reading the National Australia Bank Limited March 2015 Half Year Results, which has been lodged with the Australian Securities Exchange and is available at www.nab.com.au.

The verbal presentation to analysts places emphasis on cash earnings measures of the Group's performance. NAB uses cash earnings for its internal management reporting purposes and considers it a better reflection of the Group's underlying performance. Accordingly, as a visual aid to that presentation, information in this document is presented on a cash earnings basis unless otherwise stated.

Cash earnings is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. 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. **The definition of cash earnings, a discussion of non-cash earnings items and a full reconciliation of the cash earnings to statutory net profit attributable to owners of the company is set out on pages 2 – 8 of the National Australia Bank Limited March 2015 Half Year Results Announcement.**

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 2015 Half Year Results Announcement.

Note:

- The inclusion of percentage changes in brackets in this document indicates an unfavourable movement on a prior comparative period.
- This document is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.
- This document may contain certain forward-looking statements. The words “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “outlook”, “should”, “could”, “may”, “target”, “plan” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings, future financial position and capital position, distributions and performance are also forward-looking statements as are statements regarding the Group's future developments, the market outlook and the future operation of the Group. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks (including the risks set out in this document), uncertainties and other factors, many of which are beyond the control of the Group, its officers, employees, agents and advisers, that 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. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as forecast and their differences may be material. Investors should not place undue reliance on forward-looking statements. To the maximum extent permitted by law, responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise is disclaimed. The Group disclaims any responsibility to update or revise any forward-looking statement to reflect any change in the Group's financial condition, status or affairs or any change in the events, conditions or circumstances on which a statement is based, except as required by law.
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- Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly with the total figure given.

Agenda

- BNZ overview – Anthony Healy, Managing Director & Chief Executive Officer
- Strategic priorities – Anthony Healy
- Financial performance – Adrienne Duarte, Chief Financial Officer
- Risk and regulatory considerations – Peter Whitelaw, Chief Risk Officer
- Summary – Anthony Healy
- Q&A

The Executive Team – passionate, driven, experienced



Anthony Healy
Managing Director &
Chief Executive Officer

- 6 years with BNZ
- 24 years experience in New Zealand, Australia, Asia and the Middle East



Adrienne Duarte
Chief Financial Officer

- 3 years with BNZ, 15 years with NAB
- 20 years experience in corporate finance advisory and strategy consulting roles



Annie Brown
Director People and
Communications

- 5 years with BNZ
- 20 years experience in organisational change, culture and capability development



Craig Herbison
Director Retail and
Marketing

- 4 years with BNZ
- 21 years experience in marketing and advertising, brand transformation, communications and law



David Bullock
Director Products and
Technology

- 10 years with BNZ
- 20 years experience in finance and retail banking including innovation, business strategy and operations



Martin Gaskell
Director Customer Fulfilment
Services

- 8 years with BNZ
- 13 years experience in financial and operations management



Peter Whitelaw
Chief Risk Officer

- 6 months with BNZ, 9 years with NAB
- 30 years banking experience in financial markets, market and liquidity risk management and risk system implementation



Richard Griffiths
Director Strategy and
Business Performance

- 5 years with BNZ
- 24 years experience in leadership and organisational development, change and commercial operations



Shelley Ruha
Director BNZ Partners

- 25 years with BNZ
- Joined BNZ in 1990 in graduate programme, has extensive leadership experience across the bank

Key messages

- Long history of consistent earnings growth
- Traditional strength in business banking, especially SME and Agri
- Differentiated brand positioning and focus on customer experience delivering better customer advocacy
- Broadening retail reach through broker and Auckland uplift
- Market leading digital offerings
- Strong balance sheet metrics and robust asset quality

BNZ Overview

Anthony Healy

Managing Director and Chief Executive Officer

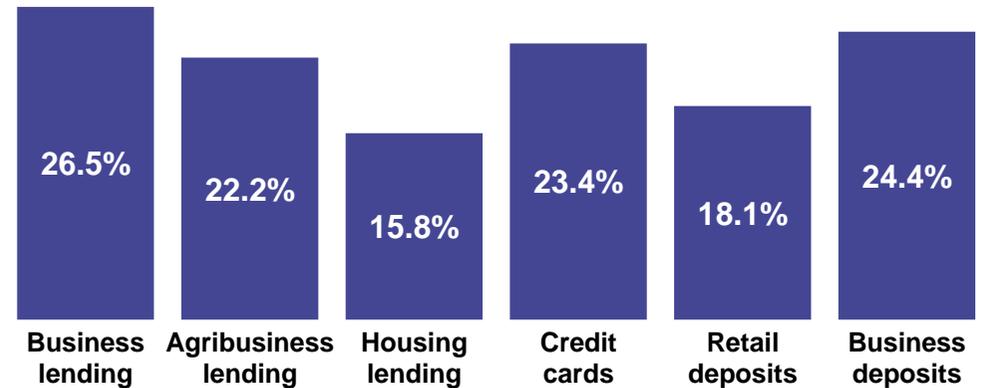
BNZ overview

Proud history in New Zealand

- Founded in 1861, part of NAB since 1992
- 1.2 million customers and 5,500 staff
- Focused on supporting New Zealand customers 'Be Good With Money'



Substantial market shares in all key segments¹



Broad-based distribution

- 174 BNZ Retail Stores
- 33 BNZ Partners Business Centres
- Growing broker presence
- 26 Retail Mobile Bankers
- 4 Retail Contact Centres
- 2 Small Business Hubs
- Fly Buys – 2.4m cardholders (BNZ 25% shareholder)

Growing digital presence



630k internet banking customers

- Personal internet banking customers 604k
- Business internet banking customers 26k



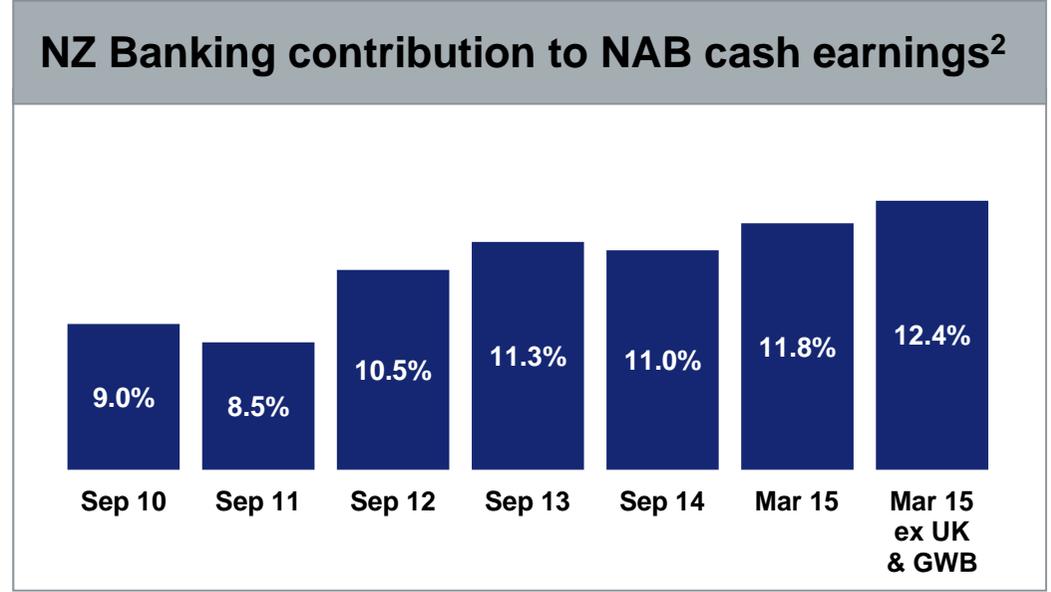
189k mobile app customers



79% of all transactions online

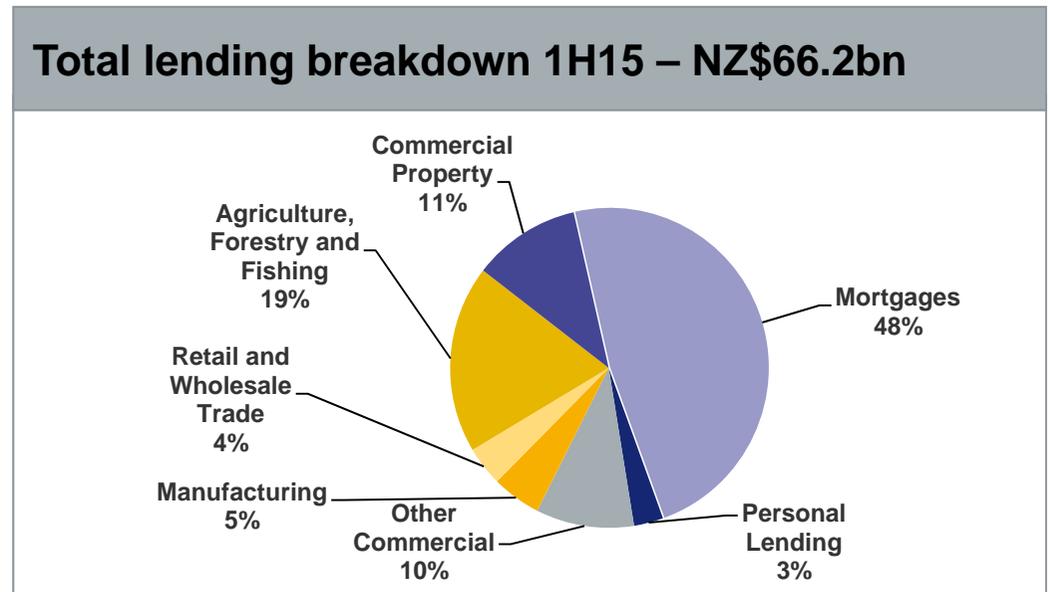
(1) Source: RBNZ Mar 15

Strong contributor to NAB Group earnings



EPS CAGR – March 2010 to March 2015

	NZD	AUD
NZ Banking	7.2%	10.9%
BNZ legal entity	11.5%	15.3%



(1) 6 months to Mar 15

(2) Excludes specified items announced at 2014 Full Year result

NZ economic outlook

Economic Indicators (%)	CY12	CY13	CY14	CY15(f)	CY16(f)
GDP growth ¹	2.4	2.3	3.3	2.8	2.0
Unemployment ²	6.8	6.1	5.8	5.8	6.2
Inflation ³	0.9	1.6	0.8	0.5	2.3
Cash rate ²	2.5	2.5	3.5	3.5	3.5
System Growth (%) ⁴	FY12	FY13	FY14	FY15(f)	FY16(f)
Housing	1.6	4.6	5.4	4.9	5.1
Personal	0.2	1.9	4.7	6.1	5.2
Business	2.6	3.3	3.4	5.3	5.8
Total lending	1.9	4.0	4.6	5.2	5.3
Household retail deposits	9.0	9.8	9.4	10.0	9.2

- Economic growth running at an annualised rate of around 3.25% in the final quarter of 2014
- Forecast annual rate of GDP expansion to slow to under 2.5% by the end of 2015 and 2.0% for calendar 2016
- Business sentiment remains buoyant regarding the activity outlook with firms reporting higher profits and the intention to continue hiring and investing
- Aggregate picture looks fine, but important differences between sectors and regions. RBNZ estimates that lower dairy prices will cut 2014/15 incomes by NZ\$6 billion, disproportionately affecting activity in important dairy regions like Taranaki and Waikato
- Activity in the Auckland region (over one-third of the economy) supported by upturn in the housing market and disproportionate share of record high net immigration
- Auckland house prices were up by 18% year on year in April 2015 with higher sales volumes also pointing to market strength and underpinning a solid upturn in Auckland building construction
- Expect moderating housing credit growth partly as macro-prudential controls begin biting
- Modest uplift in business credit growth likely due to broad based strength in the economy (outside dairy) supporting investment

(1) Per cent change, average for year ended December quarter on average of previous year

(2) Per cent, as at December

(3) Per cent change, December quarter on December quarter of previous year

(4) Per cent change, average for year-ended September (bank fiscal year end) on average of previous year

Key trends shaping our strategy

Auckland demographics...

- Half of total New Zealand population growth is in Auckland – 2x national rate¹
- 39% of residents born overseas (23% in Asia)¹
- Highest median annual household income (\$76k vs national median \$64k)¹
- In 2013, Auckland had larger proportions of people in every age group under 50 years than did the rest of NZ, and smaller proportions in every age group over 50 years¹

Digital disruption

- More Fintech participants in payments (ApplePay), lending (Harmony) and ecosystem platforms (Xero)
- New technologies still emerging eg Cloud, Crypto-currencies and internet of things
- Material increases in mobile as a channel for financial transactions – 0.3m transactions in FY13 vs 1.3m in FY15
- Digital is creating opportunities to redefine customer experiences

(1) Source: Statistics New Zealand census 2013

(2) Source: Auckland Council – Business and Economy in Auckland 2014

(3) Source: BNZ, Statistics New Zealand

... driving higher and less volatile growth

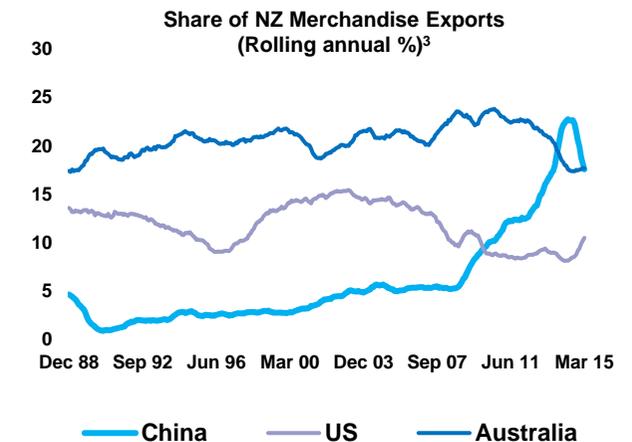
GDP – annual % change year end March²



Auckland City's economic strategy is targeting real GDP growth of 5% per annum over next three years²

Importance of Asia

- Increased trade flows, especially demand for agricultural commodities
- Important market for Dairy (32% of all dairy and 46% of milk powder exports to China for year end December 2013)
- Asia migration



BNZ Strategic priorities

Anthony Healy

Managing Director and Chief Executive Officer

Our focus

Strong NZ franchise

- Leveraging investment in BNZ Partners and Retail
- Customer experience
 - Get the basics right
 - Fix pain points
 - Digital enablement
- Clear segment and geographic focus
 - SME
 - Home loan customers
 - Auckland
- Culture
 - Bold, Brave and Blue
 - Living the customer promises

Our Core: Performance, Risk, Technology, Information

Delivering sustainable shareholder returns



Auckland key to retail growth

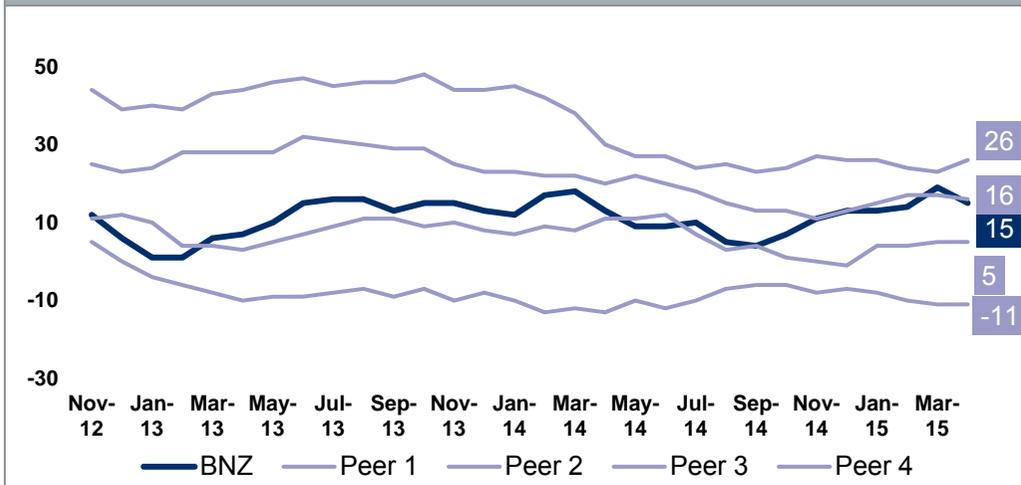
Underweight Auckland market

- Auckland accounts for 35% of NZ GDP and targeted to grow at 5% per annum next 3 years¹
- Significant underweight position in Auckland housing
- Retail main bank market share in Auckland only 9%
- Distribution gaps being addressed – mobile and broker
- Digital opportunity – 28% of BNZ customers Auckland based but account for >50% of digital activity

Total Auckland housing lending



Positive retail Net Promoter Score (NPS)³



Investment in Auckland is underway

- ~ 50 new roles since April, 50 more this year
- Expanded customer acquisition teams in Small Business, Migrants and Home Lending Specialists
- Launched third party mortgage acquisition

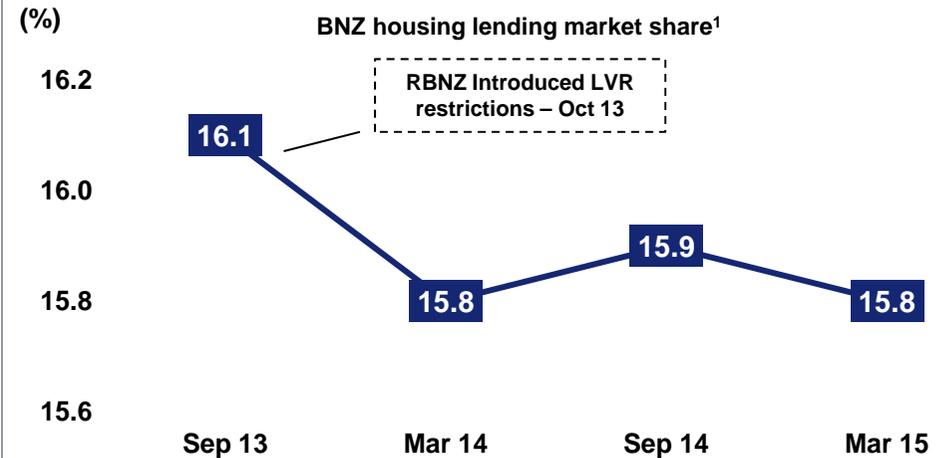
(1) Source: Auckland Council, Auckland Tourism, Events and Economic Development
 (2) Mar 15 peer reports
 (3) Source: Retail Market Monitor data on a six monthly roll

Accelerating housing lending growth through broker channel

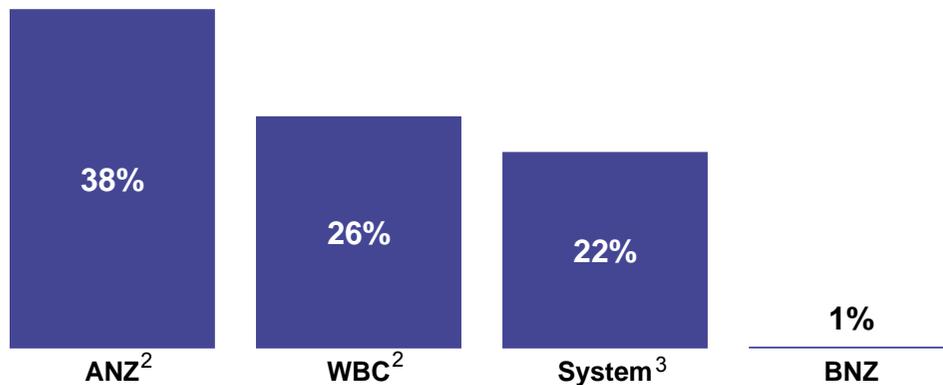
Re-entered broker market

- Re-entered mortgage broker market on May 18 2015
- Partnered with NZ Financial Services Group – New Zealand’s largest broker group
- Launched with 100 individual Brokers – view to lift to 450 in first twelve months
- Expansion to rest of broker market over next 5 years

Regulatory changes driving shift to broker



Mortgage broker flows – 12 months to March 15



Customer preference for mortgage brokers⁴

- Customers are time poor
- Brokers valued for
 - Expertise
 - Independent advice
 - Perception of better pricing
- Overseas experience reinforces global trend to third party advice for mortgage origination

(1) Source: RBNZ
 (2) Mar 15 peer reports
 (3) Source: Deloitte FY13 system flows
 (4) Internally commissioned customer survey outcomes

Leveraging digital capability

Investing in digital innovation

- Dedicated digital team (132 FTE)
- Uses agile operating model and high release frequency to both lead and fast-follow market
- Strong emphasis on design led customer centric solutions – YouMoney co-created with customers
- Migrating all customers to YouMoney (retail) or IB4B (business) to further accelerate channel development

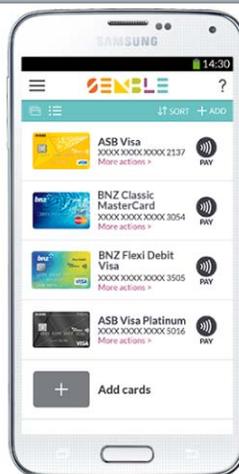
YouMoney

- Launched YouMoney in 2013
- 163k registered customers
- Delivered material increase in activation, retention and sales
- Further 350k BNZ Internet banking users being migrated by October 2015



NZ's first digital wallet

- Semble – NZ's first mobile wallet launched in March 2015
- Partnership between NZ's three main Telcos (2degrees, Spark, Vodafone) and two banks (BNZ and ASB)
- Launched on Android phones using NFC technology



Voice bio-metrics driving better customer experience

- Launched customer voice recognition in 2014
- 200k registered customers
- Faster and more robust security identification checks
- Efficiency and customer experience improvements (24k calls fully authenticated last month using biometrics saving 90 seconds per call)

Customer centric approach to business banking

Business banking model

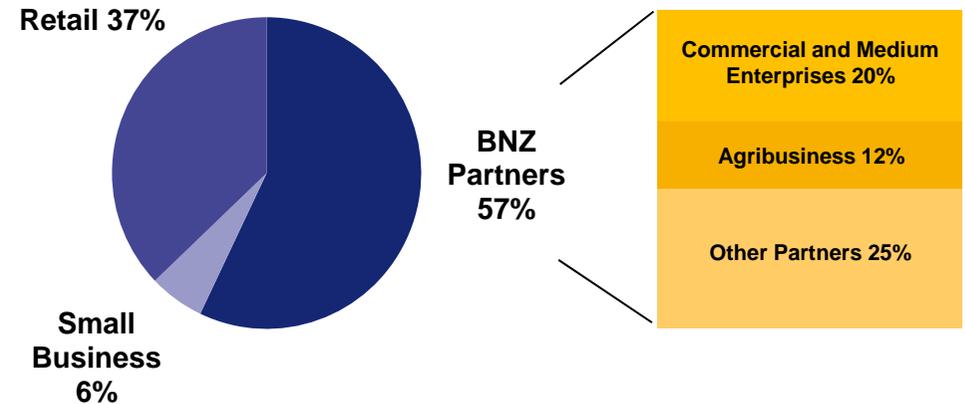
BNZ Partners

- Launched 2008 for all Agri, Property, Private Bank and business customers with turnover greater than \$1m
- 33 dedicated Partners Centres for customer use
- Adding value to customers through deep industry specialisation – Agri, Health, Professional Services, Property, Not for Profit and Franchising

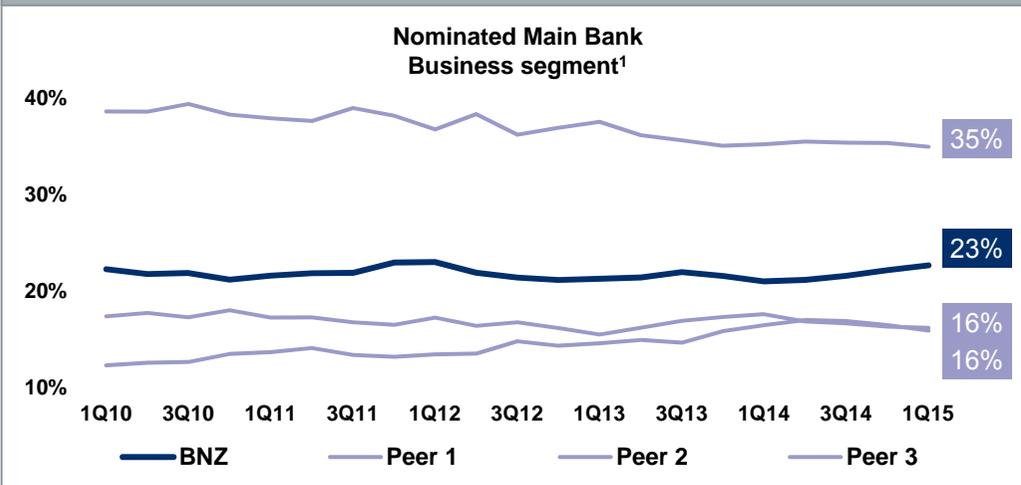
Small Business

- Customer with less than \$1m turnover managed through two small business hubs (contact centres)

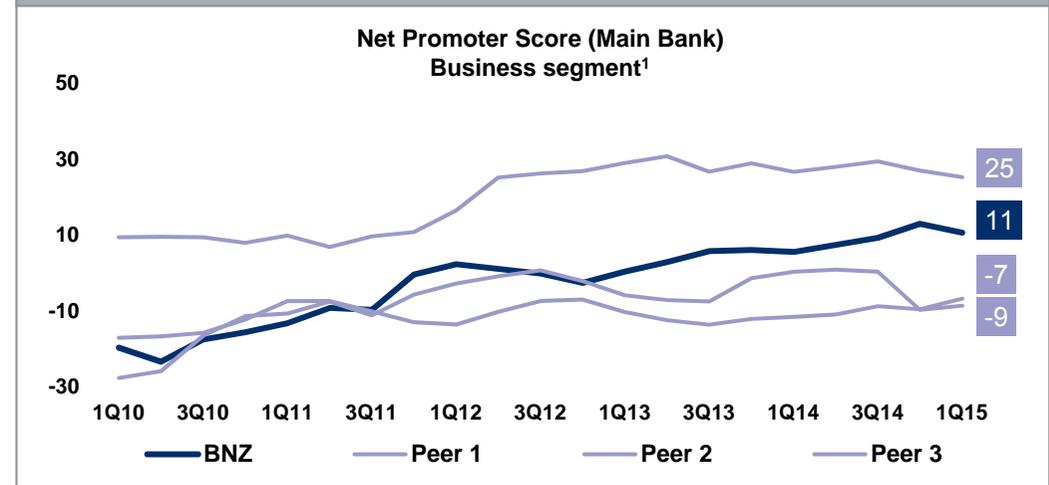
Revenue contribution



Held share in a competitive market



Significant gains in customer advocacy



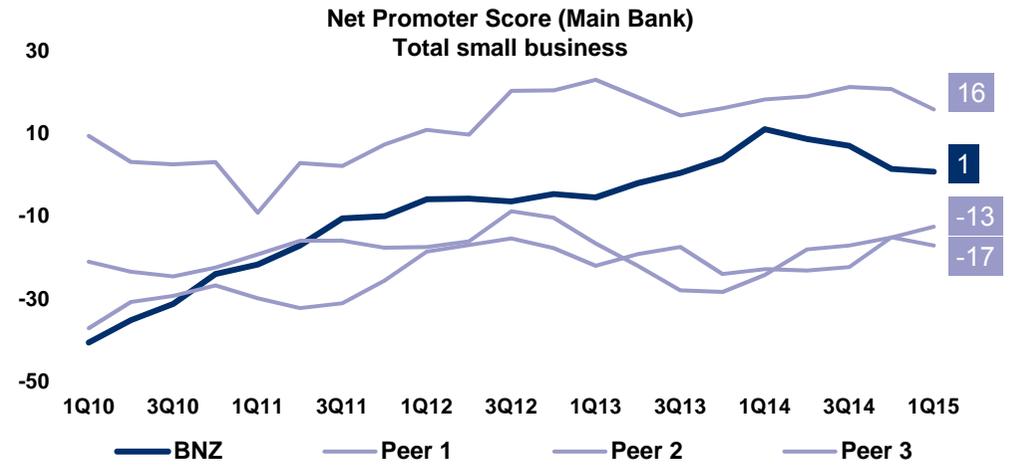
(1) Business >\$1m plus Agri \$100k+. TNS Business Finance Monitor – Q1 2015

Small business (<\$1m turnover) – Auckland growth a priority

Market leading proposition

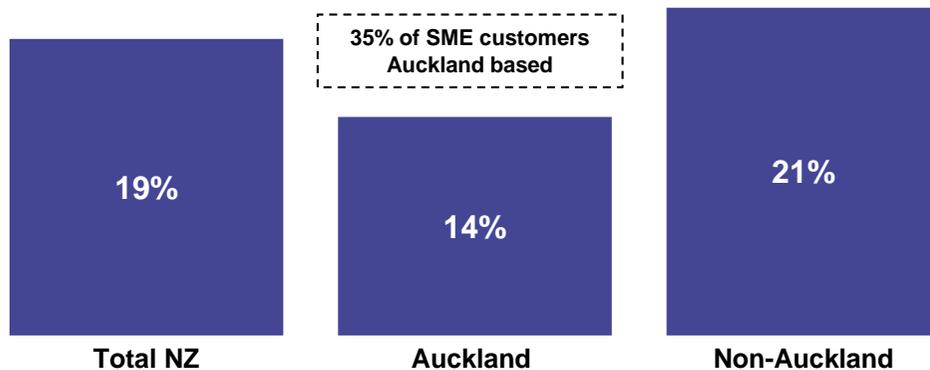
- CANSTAR Small Business Bank of the Year 2011 to 2014
- Market leading customer access – dedicated business teams available 7am to 7pm, 7 days a week
- Track record for digital innovation
 - Payclip (1st to market – turning mobile phones into payment devices)
 - EDGE payroll (Cloud-based one click payroll / IRD / KiwiSaver payment and reporting)
 - Video access to business bankers

Leading to material improvements in NPS¹



Auckland market share opportunity

BNZ Small Business market share



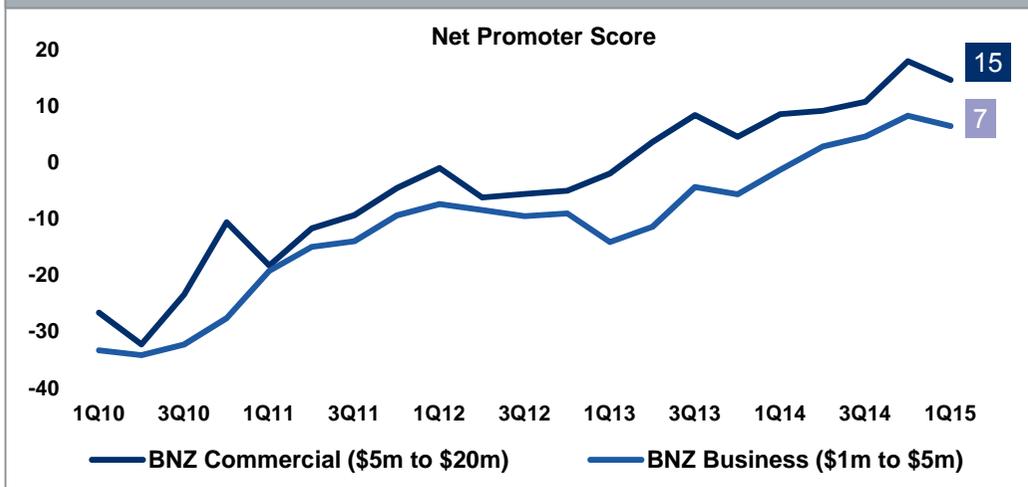
Increased Auckland investment underway

- Plans to add further resourcing into Small Business in Auckland
- Targeting segment revenue growth of 15% per annum
- New auto-decisioning tool ready for release – will enable much higher rate of auto-decisioned loans

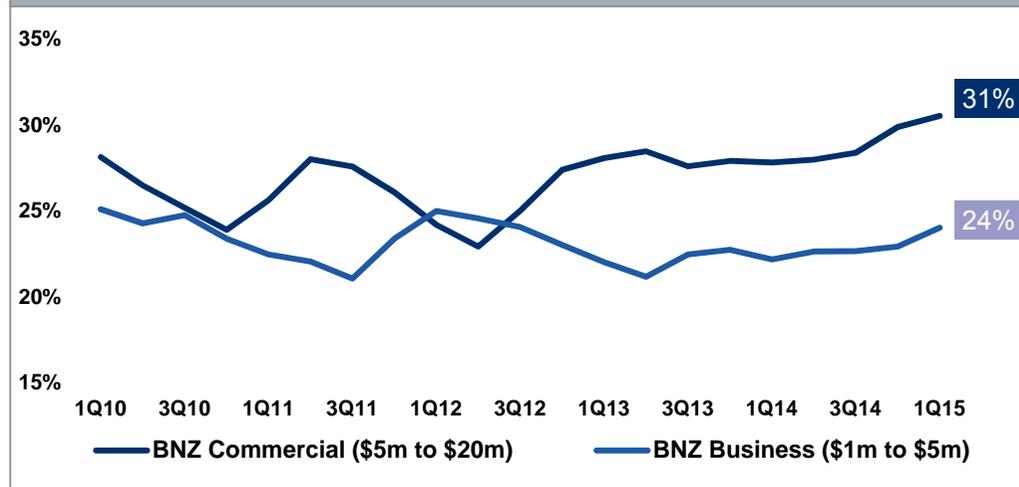
(1) Total Small Business (<\$1m)
(2) TNS Business Finance Monitor – Q1 2015

Medium and Commercial Business (\$1m – \$20m turnover) – strong franchise position

Strong gains in customer advocacy¹



Recent market share performance¹



Focus on growth sectors ...

- Health – 17% of NZ population will be over 65 by 2020 – specialist health team to meet demand
- Food value chain – post farm gate
- Migrant business bankers embedded into Partners centres
- Increased Auckland footprint

... and innovation

- The ICEHOUSE Partnership (Business Incubator)
- New revenues from Asset Finance and Invoice Finance platform
- Launched FX online
- Simplified online channels to one platform – IB4B
- International trade platform

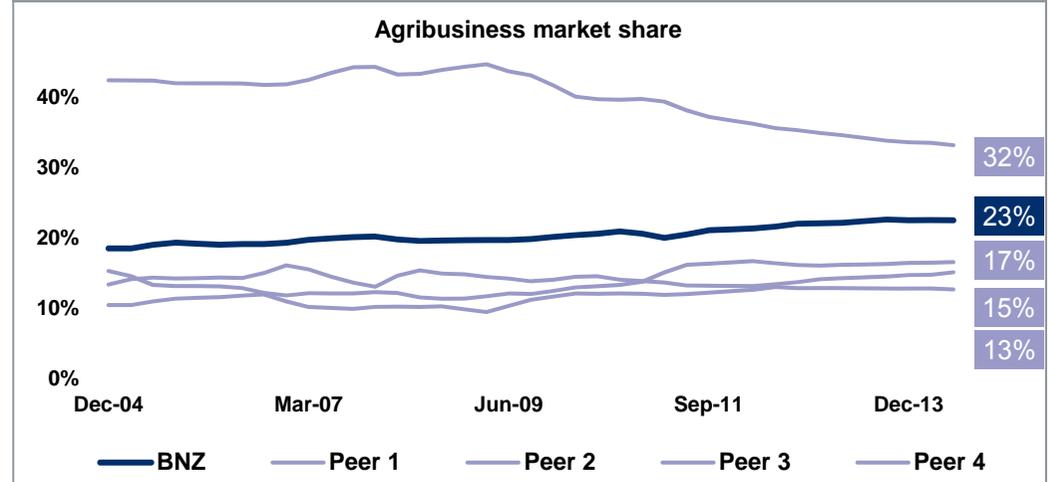
(1) TNS Business Finance Monitor – Q1 2015

Agribusiness – material to NZ and BNZ

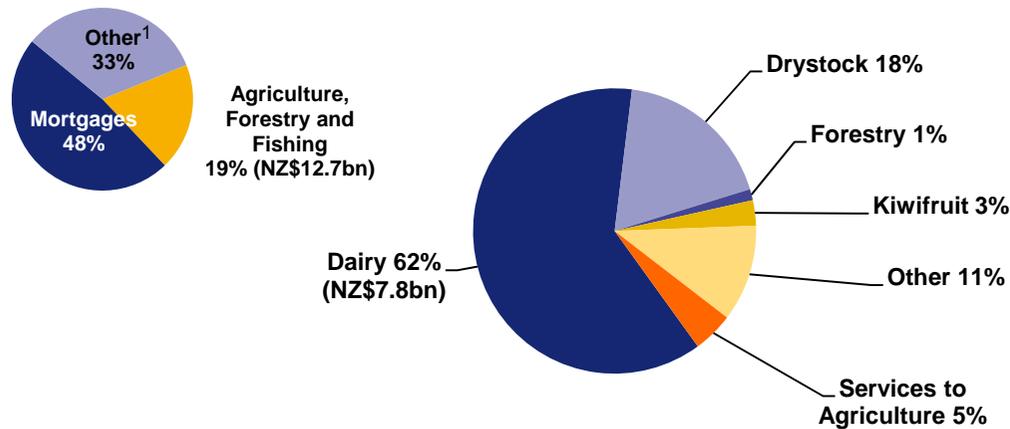
Agri underlying fundamentals remain robust

- Traditional backbone of NZ economy – 40% of exports
- Ministry of Primary Industries' goal to double Agri exports from \$32b in 2013 to \$64b in 2025¹
- Dairy long term outlook remains sound but near term challenges

Steady growth in Agribusiness share

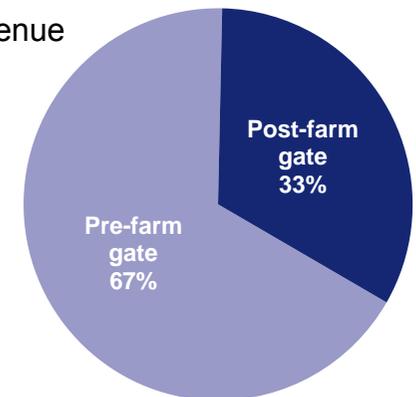


Agriculture NZ\$12.7bn – 19% of total GLAs



Post farm gate opportunities

- Post farm gate ~33% of agri revenue
- Delivers:
 - Higher ROE
 - Lower capital holdings
 - Larger clients



(1) Source: Ministry for Primary Industries
 (2) Source: BNZ and peer general disclosure statements

Financial performance

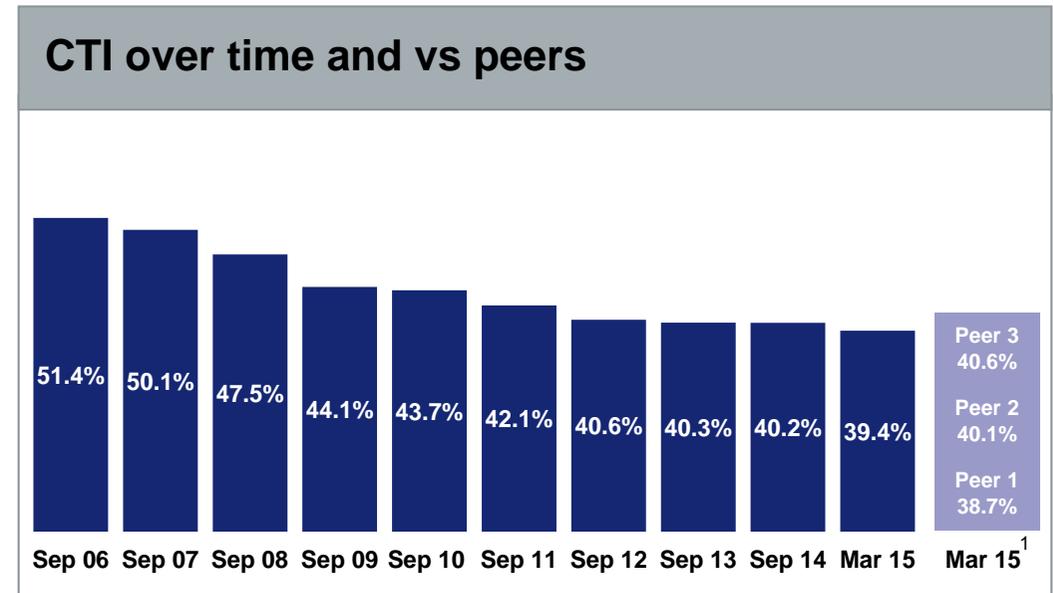
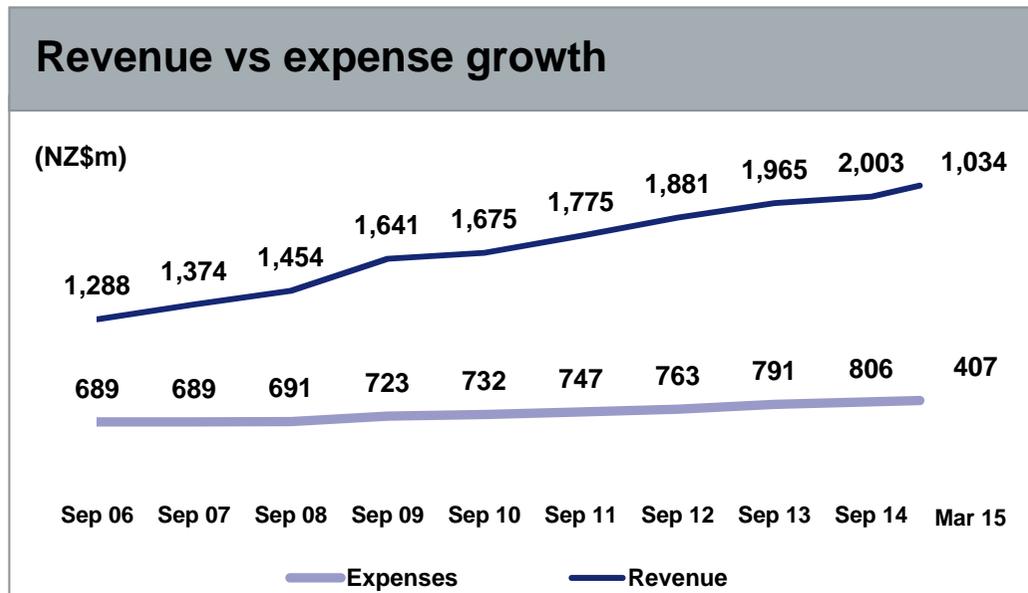
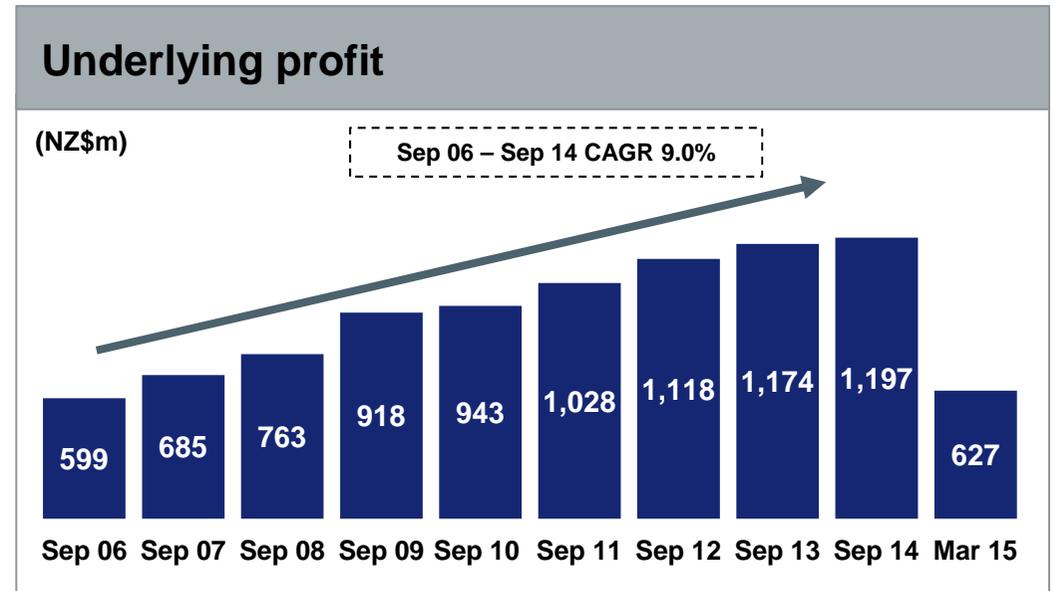
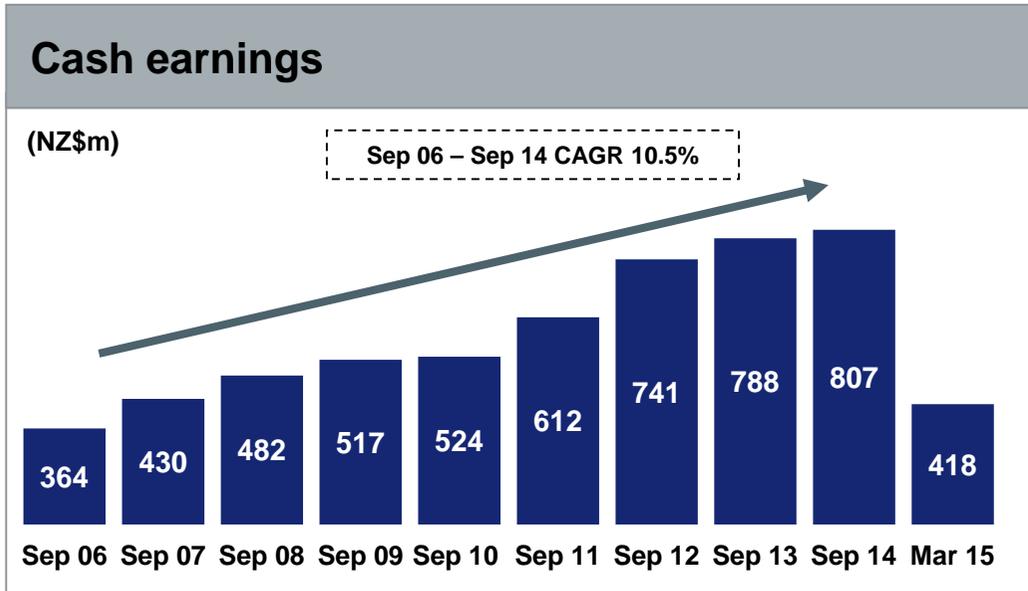
Adrienne Duarte

Chief Financial Officer

Key messages

- Track record of consistent growth in earnings
- Expenses well contained – CTI now below 40%
- Good margin management in a competitive environment
- Strong balance sheet metrics – capital, funding and liquidity
- Robust asset quality and provision coverage

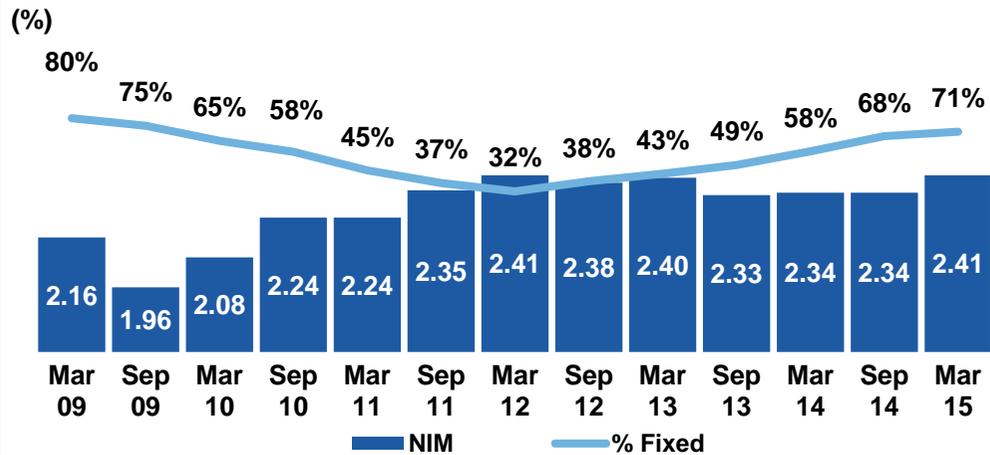
Consistent growth in earnings



(1) Based on peers last reported 1H15 results

Good margin management, improving lending and deposit balances

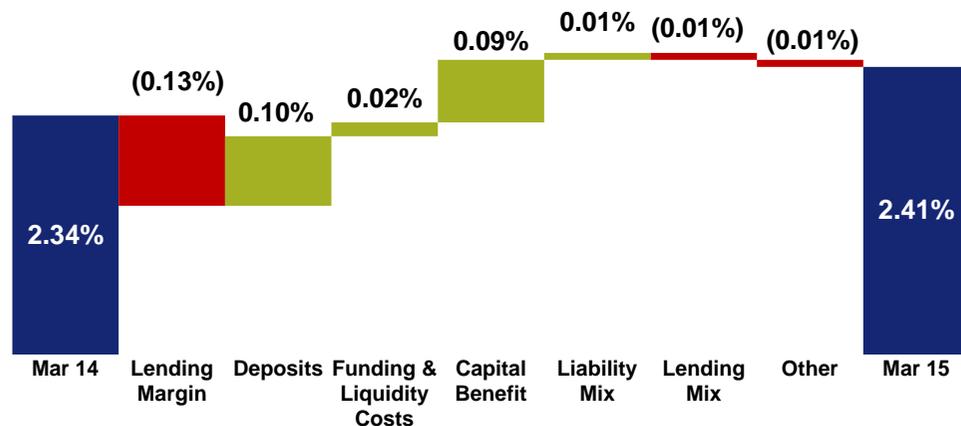
Net interest margin and proportion housing book fixed rate



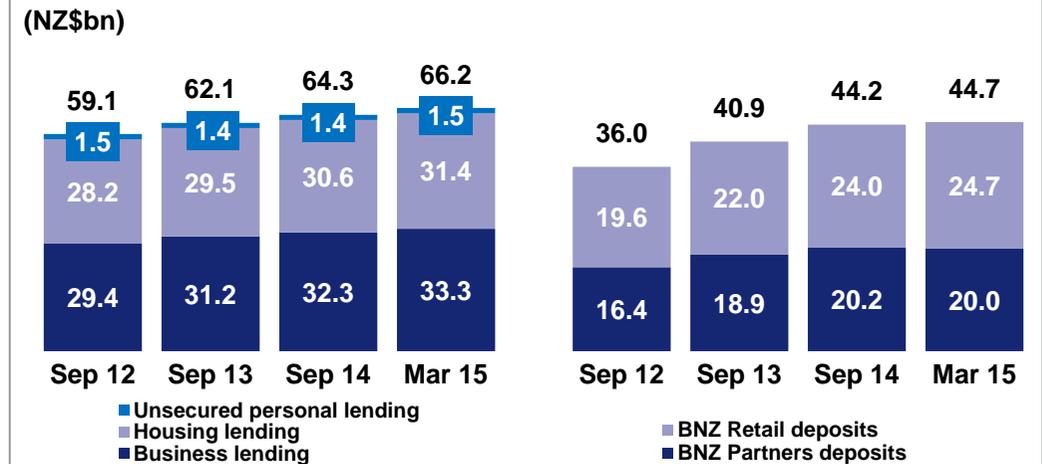
Housing market share vs Housing margin^{1,2}



Net interest margin



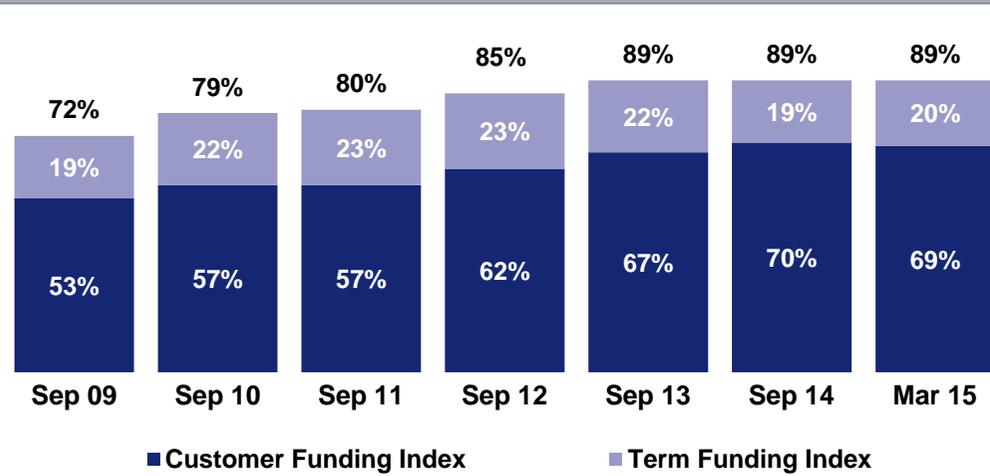
Lending and deposit balances



(1) Source: RBNZ
 (2) Margin derived from BNZ lowest carded 1 year fixed rate

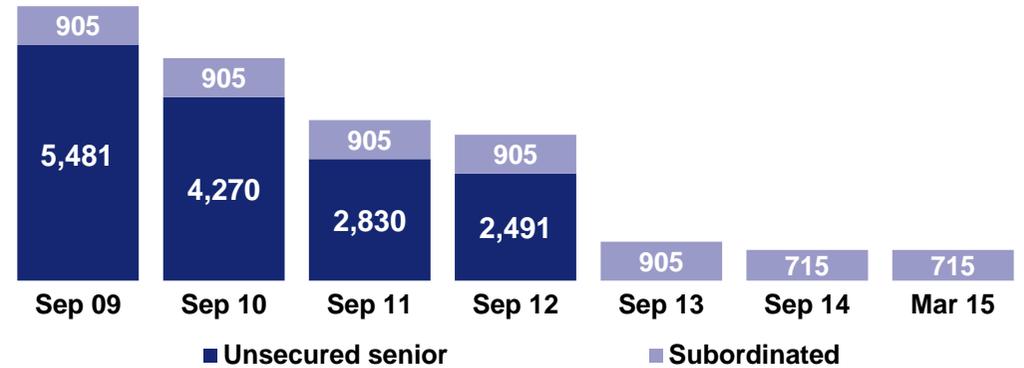
Improved funding, liquidity and capital profile

BNZ Stable Funding Index (SFI)



NAB Group debt funding of BNZ

(NZ\$m)



LCR well above minimum

Quarterly Average

LCR = 131%

HQLA

\$9.7bn

Net Cash Outflows

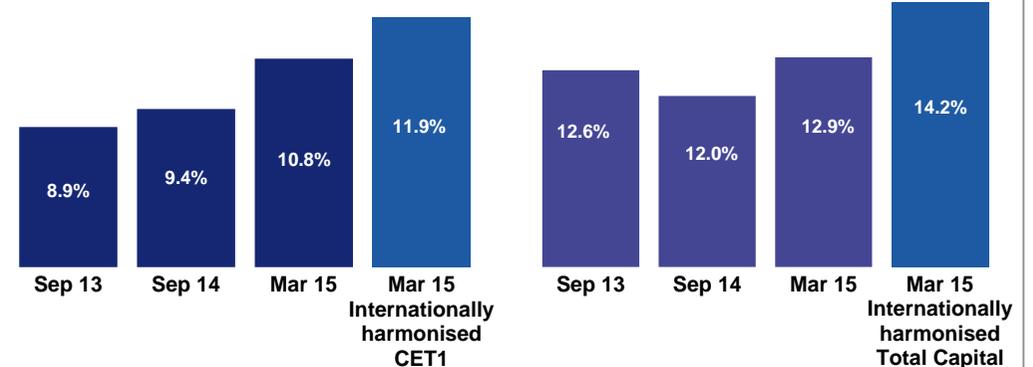
\$7.4bn

- The Liquidity Coverage Ratio (LCR) came into effect from 1 January 2015 with a minimum 100%
- Liquids that qualify for inclusion in the Group's LCR, net of applicable regulatory haircuts were, on average, \$9.7bn for the quarter ending 31 March 2015 resulting in an average LCR of 131%
- In addition, BNZ has a committed line of credit from NAB

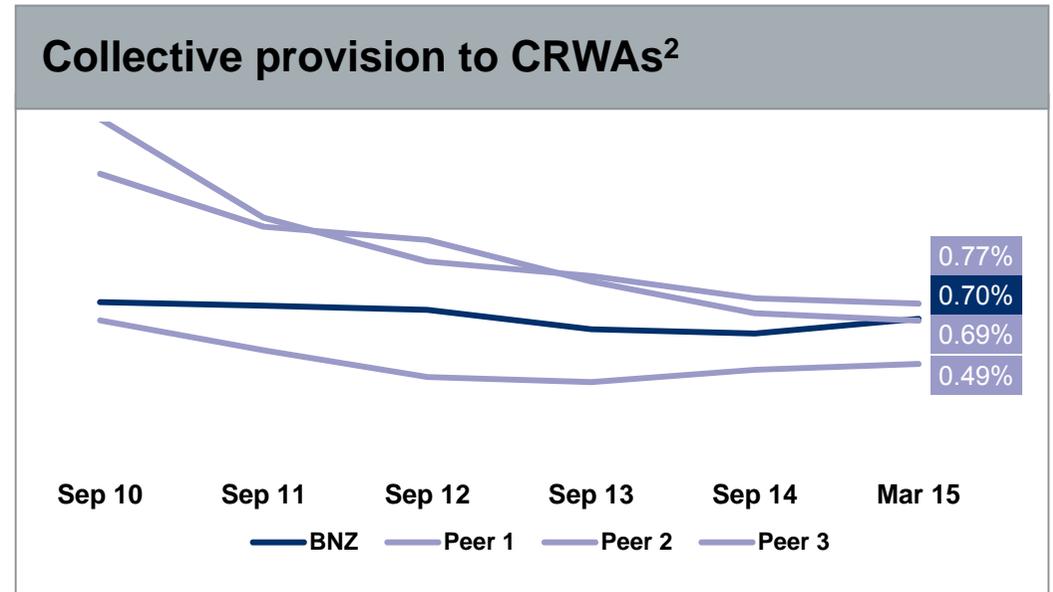
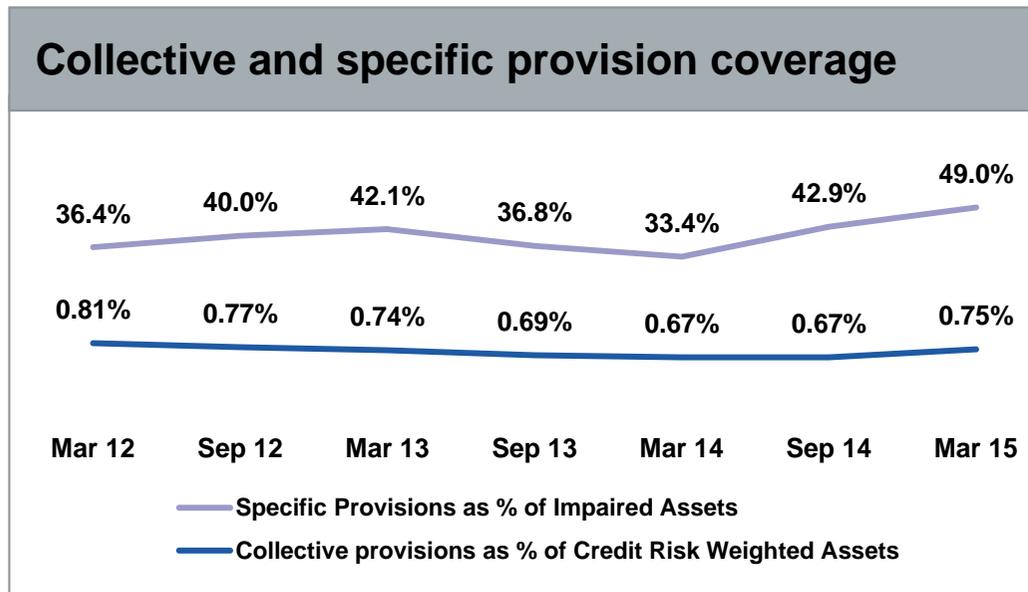
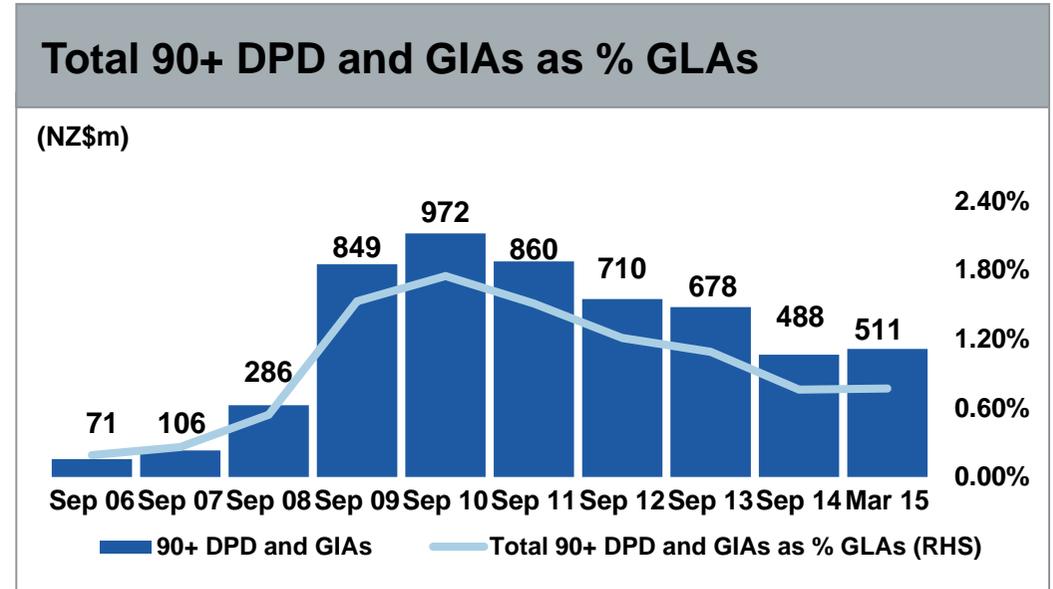
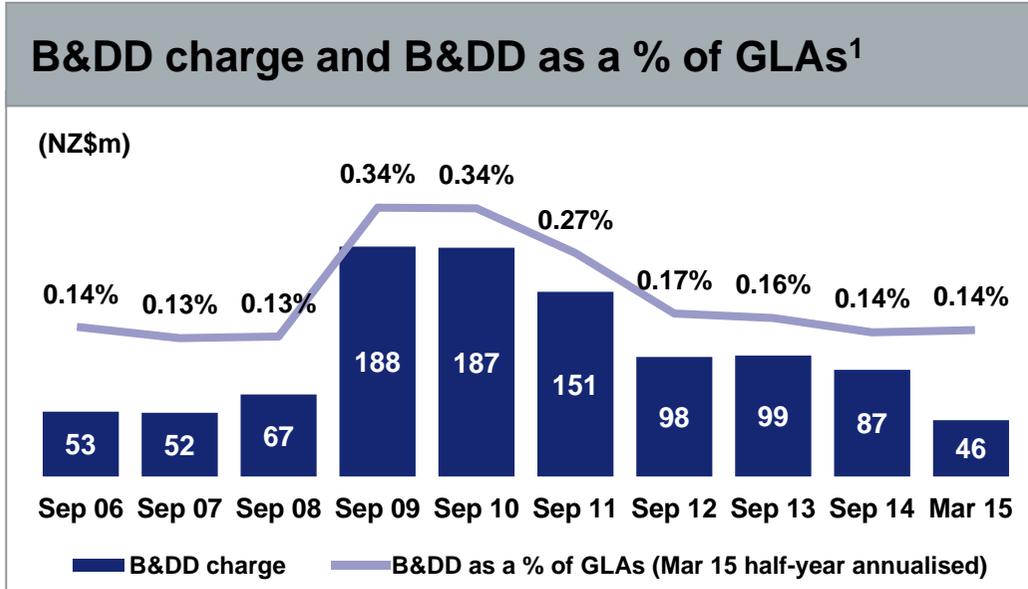
BNZ Capital Ratios

Common Equity Tier 1
Regulatory minimum 7.0%

Total Capital
Regulatory minimum 10.5%



Asset quality metrics reflect well managed risk



(1) Spot volumes
(2) BNZ Banking Group

Risk and regulatory considerations

Peter Whitelaw

Chief Risk Officer

Overview

- Well positioned for regulatory restrictions on housing lending
- Agriculture portfolio geographically diversified and well secured
- Long term fundamentals underpin dairy industry
- Expect some deterioration in the portfolio given lower dairy payout

Housing lending – well positioned for regulatory changes

Macro-prudential tools

October 2013

Limited >80% LVR mortgage lending to 10% of new mortgage lending

May 2015

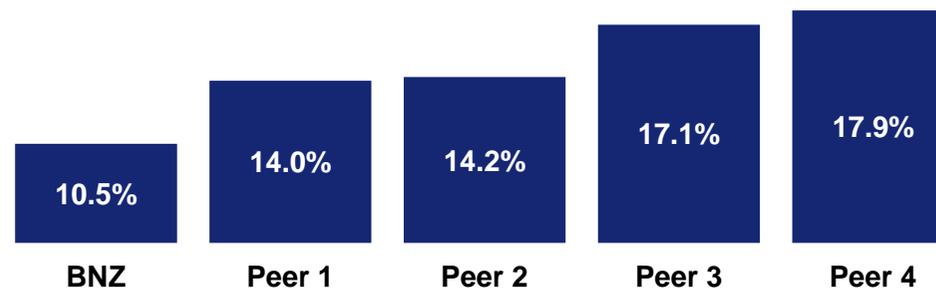
Residential property investors in Auckland required to have ≥30% deposit (<70% LVR) from 1 October

Loans to residential property investors to have a higher risk weighting than owner occupier

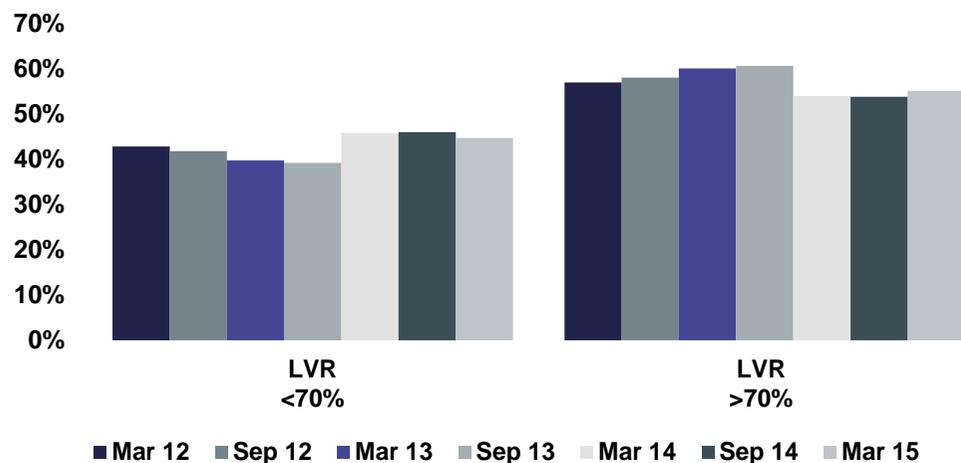
Increased >80% LVR mortgage lending limit to 15% outside Auckland

Retained >80% LVR mortgage lending limit at 10% for owner-occupier lending in Auckland

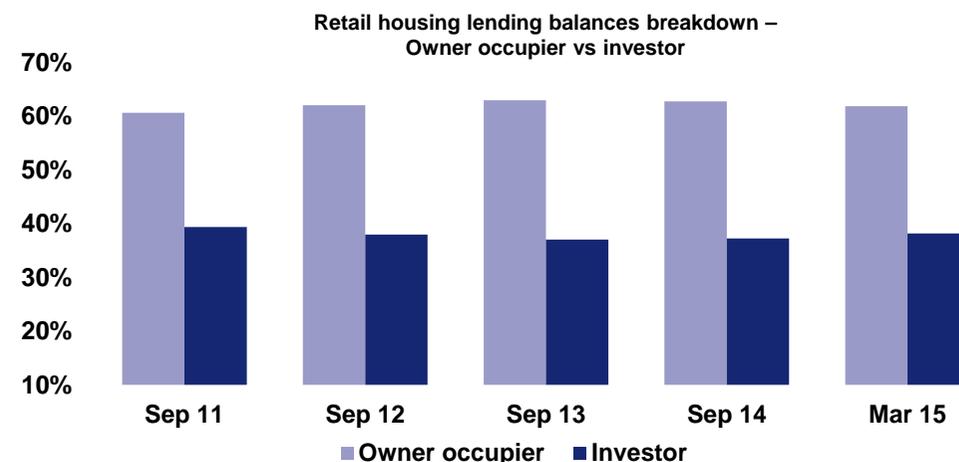
Lowest proportion of >80% LVR mortgages versus key peers¹



LVR breakdown of investor lending flows – >70% LVR steady²



Investor 38% of retail mortgage book



(1) As at Dec 14

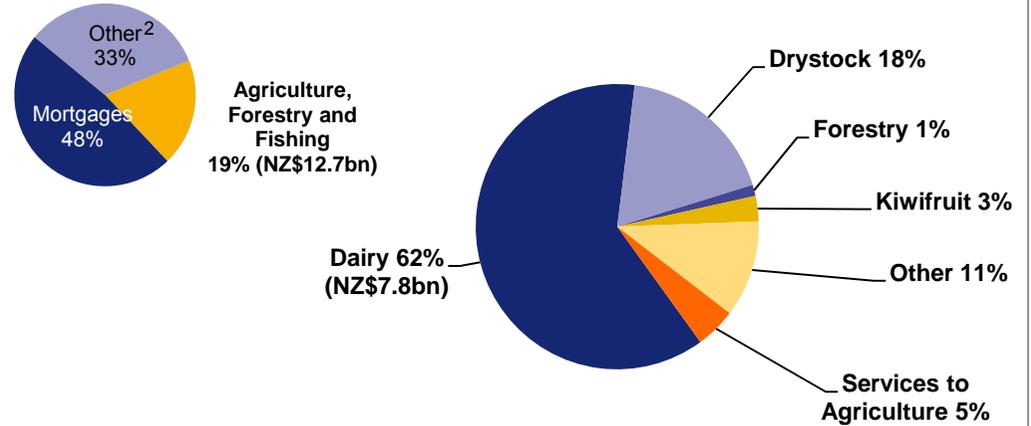
(2) Relates to retail housing lending portfolio

Agribusiness key to New Zealand economic prospects

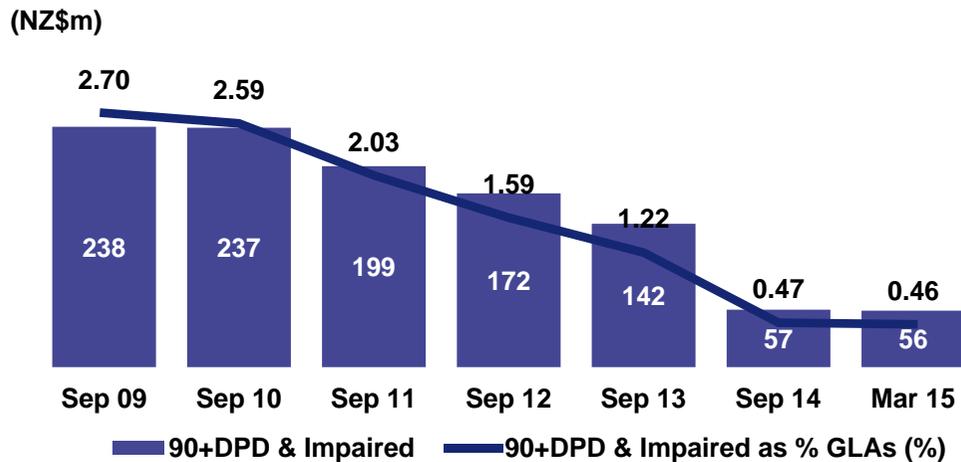
Key messages

- 22.2% Agribusiness lending market share¹ – stable since June 2013
- Diversified by geography and type, but dairy the largest industry exposure by GLAs (NZ\$7.8bn)
- Asset quality has materially improved
- Well secured portfolio

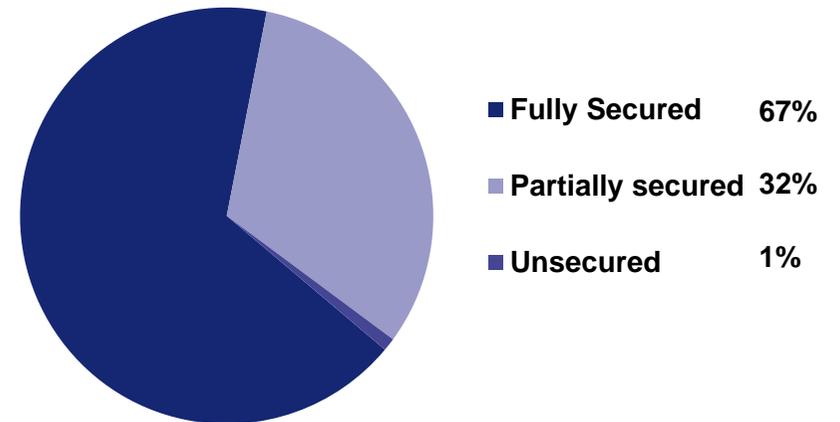
Agriculture NZ\$12.7bn – 19% of total GLAs



Asset quality much improved since 2009



Agriculture portfolio well secured³



(1) RBNZ

(2) Other includes Commercial Property, Other Commercial, Manufacturing, Retail and Wholesale Trade, and Personal Lending

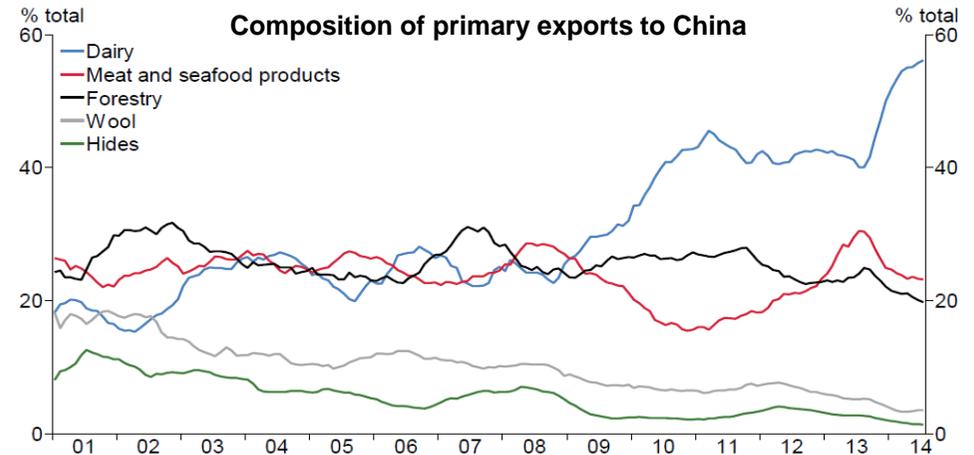
(3) Fully secured is where the loan amount is less than 100% of the bank extended value of security; partially secured is where the loan amount is greater than the bank extended value of security; unsecured is where no security is held and negative pledge arrangements are normally in place. Bank extended value is calculated as a discount to market value based on the nature of the underlying security

Dairy fundamentals robust, but near term outlook challenging

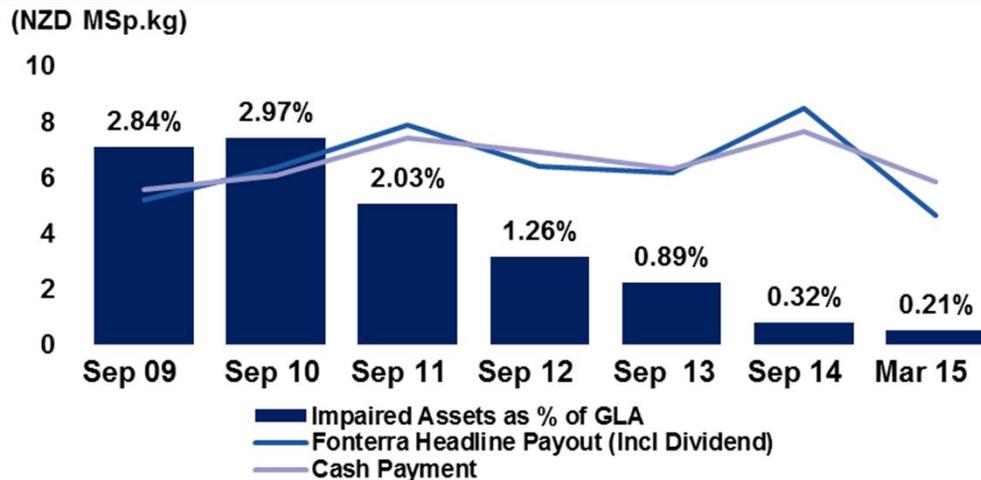
Key messages

- Long term fundamentals positive – Chinese dairy demand remains strong
- Potential near term industry stress given low 14/15 forecast payout NZ\$4.40, some improvement in forecast 15/16 payout NZ\$5.25
- Tightened origination appetite in 2014
- BNZ collective provision contains an allowance for potential deterioration in dairy industry

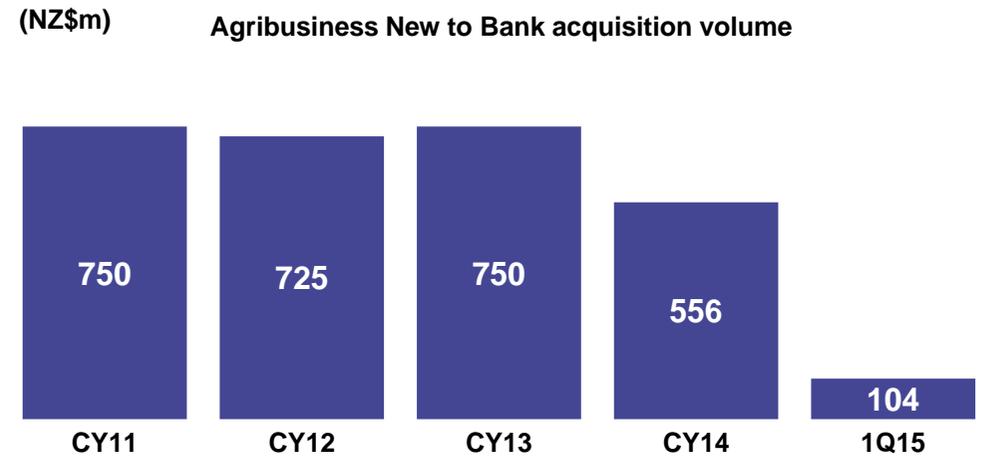
Dairy the largest primary export to China¹



Dairy asset quality has been strong



Origination appetite tightened since 2013



(1) Source: RBNZ 'Economic linkages between New Zealand and China' 2014

Summary

Anthony Healy

Managing Director and Chief Executive Officer

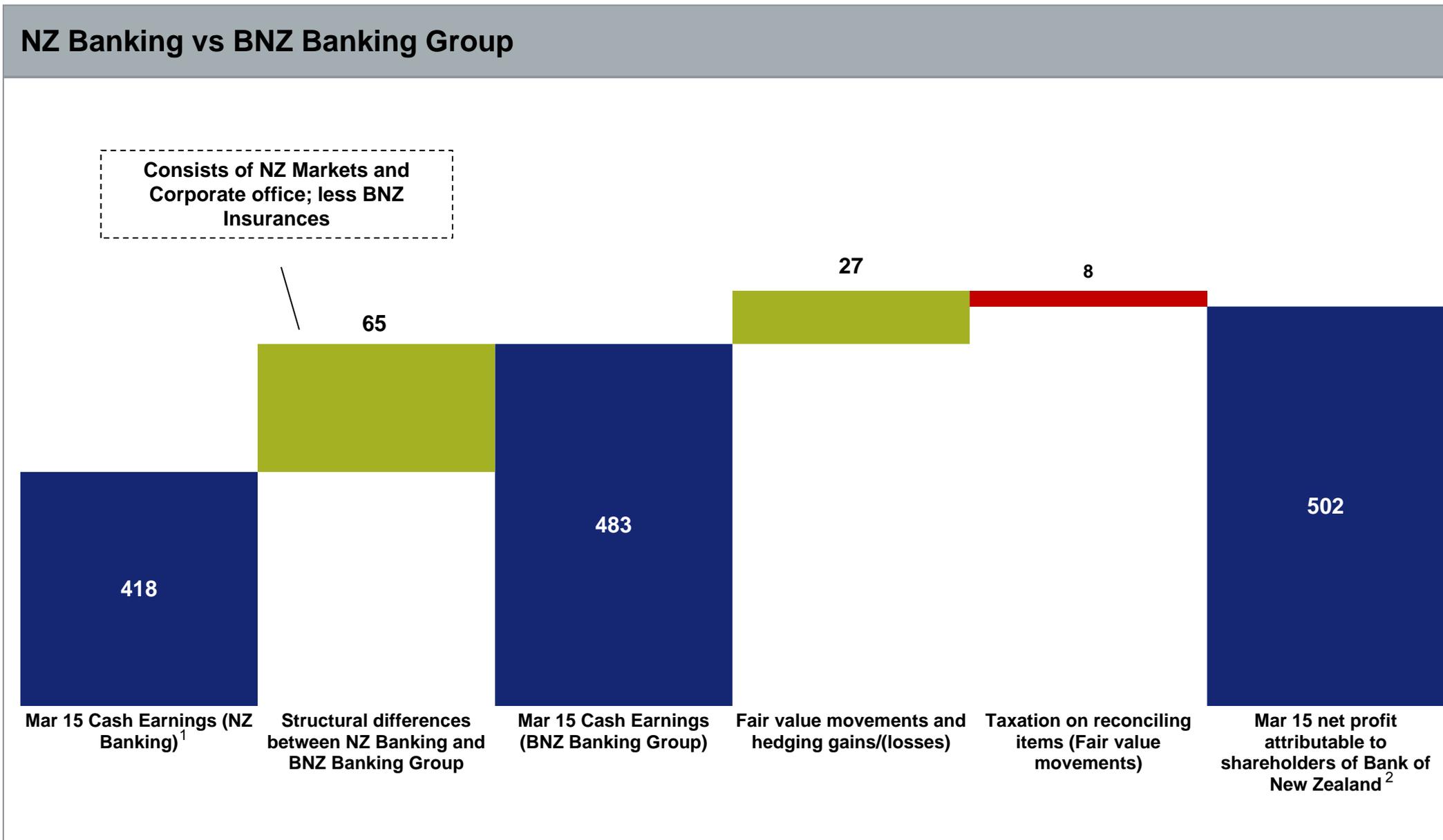
Summary

- Leveraging strong position in key segments – BNZ Partners and Retail
- Investing in Auckland growth opportunity
- Significant progress improving customer experience through innovative digital solutions
- Well placed for near-term challenges – housing lending controls and lower dairy payouts
- Consistent and growing contributor to NAB Group earnings

Questions and Answers

Appendix

Reconciliation of NZ Banking to BNZ Banking Group



(1) NZ Banking operations are reported as a separate division and include the Retail, Business, Agribusiness, Corporate and Insurance businesses. It excludes BNZ's Group Capital Management and BNZ Markets operations reported at a Group (NAB) level

(2) The BNZ Banking Group excludes the Insurance operations in New Zealand and includes BNZ's Group Capital Management and BNZ Markets operations

New Zealand: Housing lending – Key metrics

New Zealand Housing lending	Sep 13	Mar 14	Sep 14	Mar 15
Low Documentation	0.23%	0.21%	0.18%	0.15%
Proprietary	100%	100%	100%	100%
Third Party Introducer	0.0%	0.0%	0.0%	0.0%
Variable rate lending drawn balance	46.6%	38.3%	28.2%	25.5%
Fixed rate lending drawn balance	49.4%	57.9%	68.1%	70.8%
Line of credit drawn balance	4.0%	3.8%	3.7%	3.7%
Interest only drawn balance ¹	23.0%	23.0%	23.5%	23.2%
Insured % of Total Portfolio ²	12.5%	11.4%	9.9%	8.5%
Current LVR on a drawn balance calculated basis	64.7%	64.0%	63.8%	63.5%
LVR at origination	69.9%	69.3%	69.1%	68.9%
Average loan size NZ\$ ('000)	272	281	289	296
90+ days past due ratio	0.20%	0.18%	0.11%	0.17%
Impaired loans ratio	0.21%	0.24%	0.21%	0.16%
Specific provision coverage ratio	35.2%	32.7%	33.1%	36.9%
Loss rate ³	0.07%	0.04%	0.03%	0.04%

Mortgage lending breakdown by geography	Mar 15
Auckland	40%
Canterbury	15%
Wellington	11%
Waikato	8%
Bay of Plenty	7%
Other	19%

(1) Excludes Line of credit

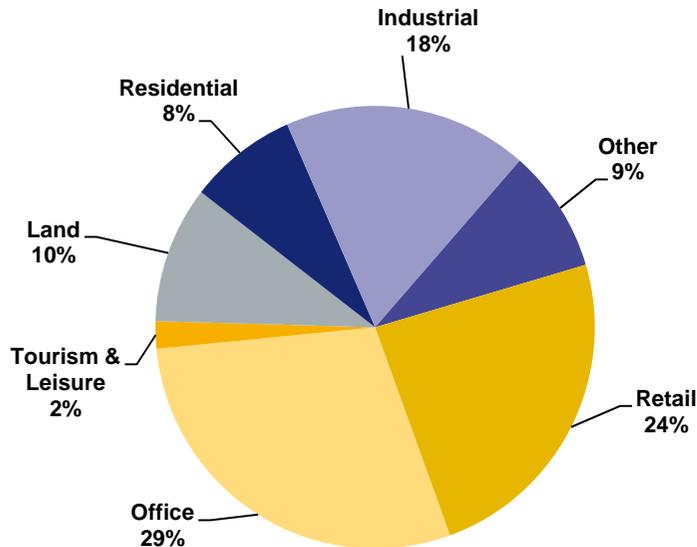
(2) Insured includes both LMI and Low Equity Premium

(3) Loss Rate = 12 month rolling Net Write-offs / Spot Drawn Balances

Commercial Real Estate – NZ Banking

Total NZ\$7.0bn

10.6% of Gross Loans & Acceptances



Region ¹	Auckland	Other Regions	Total	
Location %	43%	57%	100%	
Loan Balance < NZ\$5m	27%	43%	36%	
Loan Balance > NZ\$5m<NZ\$10m	15%	15%	15%	
Loan Balance > NZ\$10m	58%	42%	49%	
Loan tenor < 3 yrs	89%	84%	86%	
Loan tenor > 3 < 5 yrs	3%	6%	5%	
Loan tenor > 5 yrs	8%	10%	9%	
Average loan size NZ\$m	4.6	2.6	3.3	
Security Level ²				
Fully Secured	62%	68%	65%	
Partially Secured	34%	29%	31%	
Unsecured	4%	3%	4%	
90+ days past due	0.53%	1.00%	0.80%	
Impaired loans ratio	0.40%	0.70%	0.57%	
Specific Provision Coverage	11.3%	26.0%	21.5%	
Trend	Sep 13	Mar 14	Sep 14	Mar 15
90+ days past due	0.83%	0.64%	1.21%	0.80%
Impaired loans ratio	1.02%	0.99%	0.58%	0.57%
Specific Provision Coverage	46.3%	47.9%	22.5%	21.5%

(1) Data for individual regions is now presented on a stand-alone basis (previously regional data was shown on the basis of the proportional impact that region had on the total metrics)

(2) Fully Secured represents loans of up to 70% of the Market Value of Security. Partially Secured are over 70%, but not Unsecured. Unsecured is primarily Negative Pledge lending

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