

# 2012 Full Year Results

Investor presentation  
31 October 2012

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Group Chief Executive Officer

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Executive Director Finance

National Australia Bank Limited ABN 12 004 044 937

 **National Australia Bank**

**Note:** Information in this document is 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 similar business portfolios. 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. A definition of cash earnings is set out on page 146 of the 2012 Full Year Results Announcement. 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 for the September 2012 full year is included on pages 22 and 137 of the 2012 Full Year Results Announcement. The Group's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, will be published in its 2012 Annual Financial Report on 19 November 2012.

**Disclaimer:** This document is a presentation of general background information about the Group's activities current at the date of the presentation, 31 October 2012. It is information in a summary form and does not purport to be complete. It is to be read in conjunction with the National Australia Bank Limited Full Year Results filed with the Australian Securities Exchange on 31 October 2012. It 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 contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "upside", "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.

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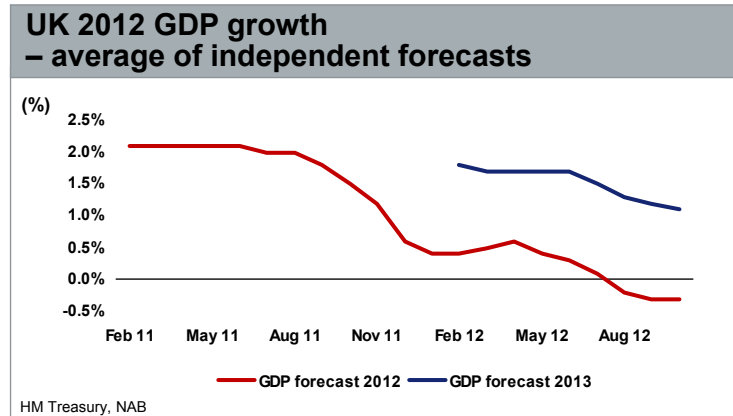
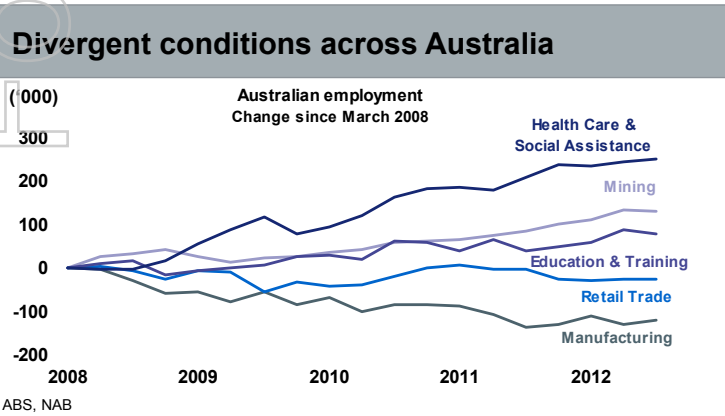
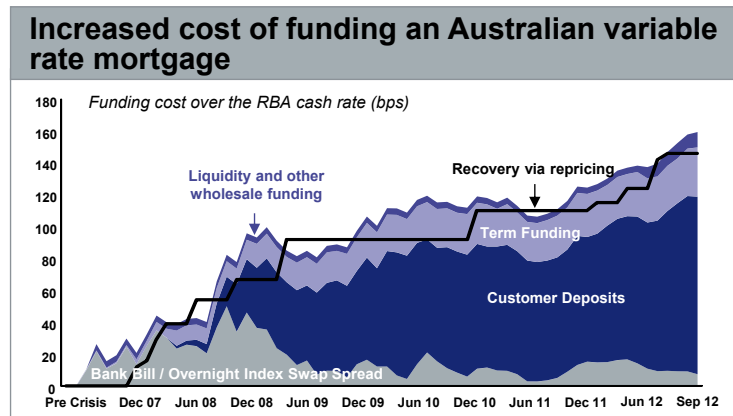
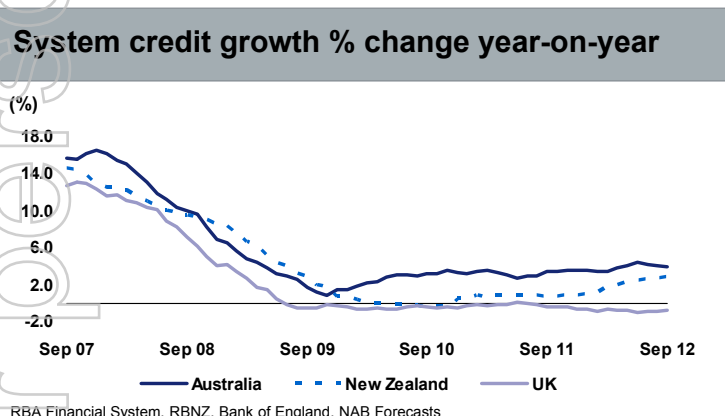
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# Result reflects the strong core franchise and challenges in the UK

	FY12	FY12 vs FY11	2H12 vs 1H12
Underlying profit (\$m)	10,396	8.1%	1.6%
Cash earnings (\$m)	5,433	(0.5%)	(7.9%)
Cash earnings (ex Economic cycle adjustment) (\$m)	5,608	2.7%	(1.7%)
APRA Basel III Common Equity Tier 1 ratio (estimated)	7.91%	82bps	33bps
Dividend (100% franked cps)	180	4.7%	-
Cash ROE	14.2%	(100bps)	(150bps)
Statutory net profit attributable to owners (\$m)	4,082	(21.8%)	(1.1%)



## Environment remains difficult



# Continued focus on strategic priorities

To deliver sustainable, satisfactory returns to shareholders

## Balance sheet strength

- Keep the bank safe
- Strong capital, funding and liquidity
- Tight controls and risk settings

## Efficiency, quality & service

- Transform the way we do business
- More competitive cost structure
- Reduce operational risk
- Replace ageing infrastructure
- Improve customer experience and service delivery

## People, culture & reputation

- Differentiate NAB for our people, customers and communities
- Shape our future environment

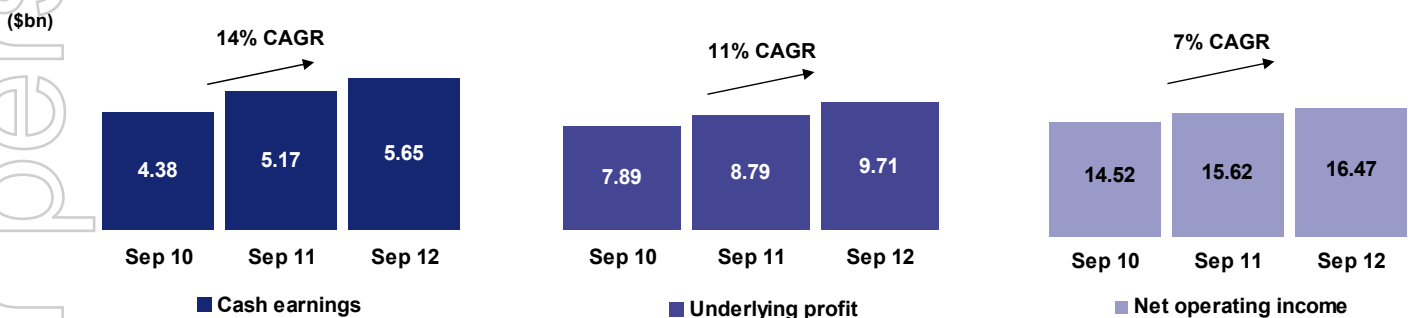
## Portfolio (focus on core Australian franchise)

- Focus in Australia
- Maintain value and options internationally
- Wholesale Banking refocused on core franchise

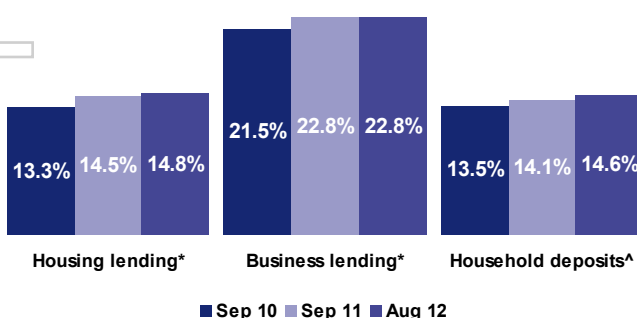


# Core franchise continues to perform strongly

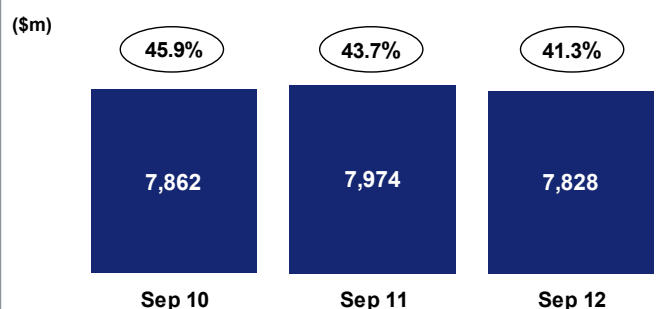
## Results excluding UK



## Australian market share



## Operating expenses



% Banking CTI Ratio



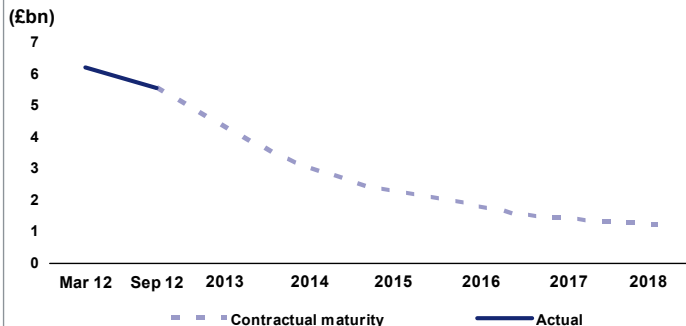
(\*) RBA Financial System / NAB  
(^) APRA Banking System / NAB

# Progress on legacy issues

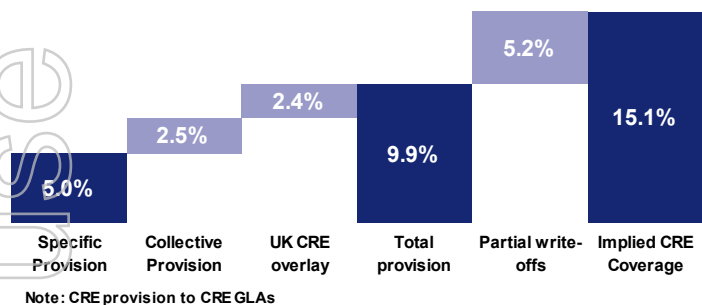
## Progress on UK restructuring

- ~£5.6bn of mainly CRE assets (before provisions) transferred from Clydesdale Bank to NAB October 2012
- Reductions of 468 FTEs in FY12
- Clydesdale Bank pro forma<sup>1</sup> SFI of 111% versus 92% reported; smaller reliance on Group
- Clydesdale Bank pro forma<sup>1</sup> Tier 1 capital ratio 11.6% versus 9.6% reported
- Begun back office and distribution footprint rationalisation

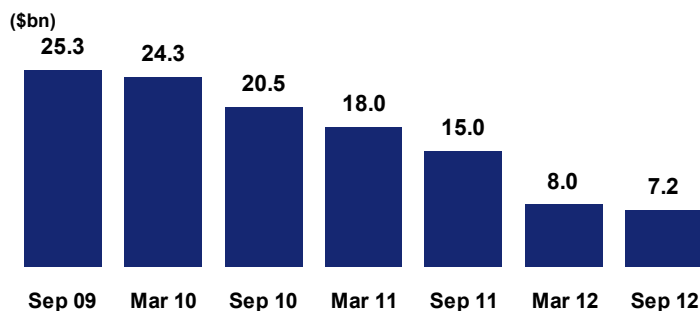
## UK CRE transfer portfolio run-off profile<sup>2</sup>



## Total UK CRE provision coverage – Sep 12



## SGA RWAs

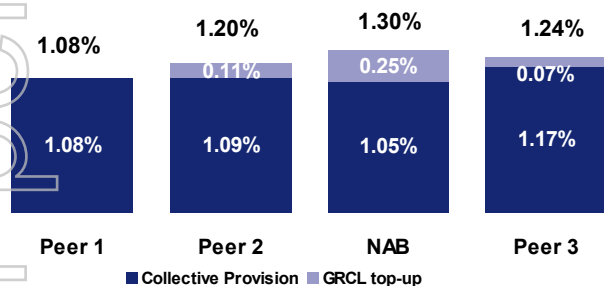


- (1) Pro forma is after adjusting for CRE asset transfer on 5 October 2012  
 (2) Reflects contractual maturity which is subject to ability of customers to refinance or repay on maturity

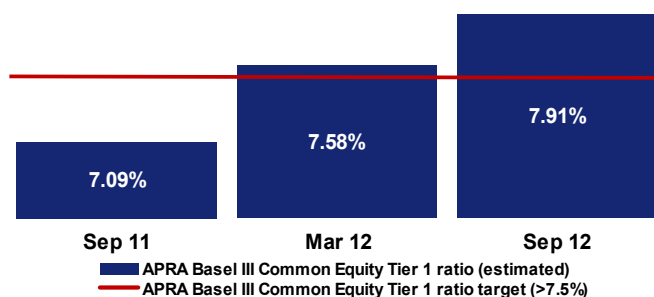


# Balance sheet strength

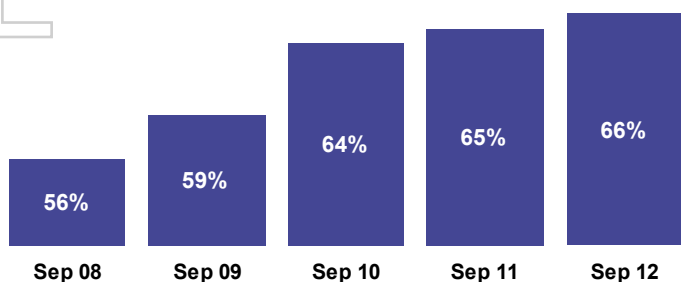
## Collective provisions and GRCL top-up to credit risk weighted assets: peer comparison<sup>1</sup>



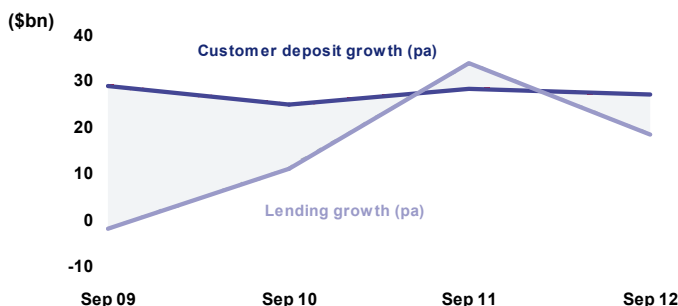
## APRA Basel III Common Equity Tier 1 ratio



## Customer funding index<sup>2</sup>



## Customer deposit growth vs lending growth



- (1) Peer ratios as last reported  
 (2) September 12 funding ratios have been restated. Net working capital is no longer adjusted from core assets and central bank deposits are now excluded from customer deposits



# Enterprise-wide Technology and Operations Transformation

Dimensions of Technology & Operations Environment	Programs	Status	
Application Layer	Channel and Distribution Systems	NextGen customer web portals, nabtrade, nabConnect, mobile apps, ATM upgrades	nabtrade customer migration complete UBank migration complete nabConnect functionality enhanced
	Customer Information Management Systems	NextGen Single Customer View	In progress
	Product Systems	NextGen – Deposits, transaction banking and lending	In progress
	Enterprise Systems	NextGen – Information Analytics Platform, single general ledger, credit risk engine replacement	SAP general ledger, HR and procurement system implemented in Aust and NZ
Infrastructure Layer	Payments	Payments Transformation - Swift Gateway upgrade, International and High Value payments, real time	In progress
	Voice Infrastructure	Single voice system – converged nine different hard-wired voice systems	Completed
	Networks, Security	Network transformation - converged eight different data systems	Completed
	Employee Services	Workplace transformation - Office tools, email, PC upgrades	In progress
	Mainframes, Servers, Operating Systems	Infrastructure transformation – modern hardware, hosting and storage via private cloud	In progress
	Data Centres	Data Centre consolidation	In progress



## Summary

- Difficult operating conditions, particularly in the UK
- Good momentum in core Australian and NZ businesses
- Strong cost disciplines
- Basel III capital ratio above minimum
- Prudent top-up to Collective Provisions
- FY13 areas of focus
  - improve returns in the UK
  - maintain momentum in Australian and NZ franchises
  - cost discipline and productivity
  - continue to progress technology deployment



# 2H12 Financials








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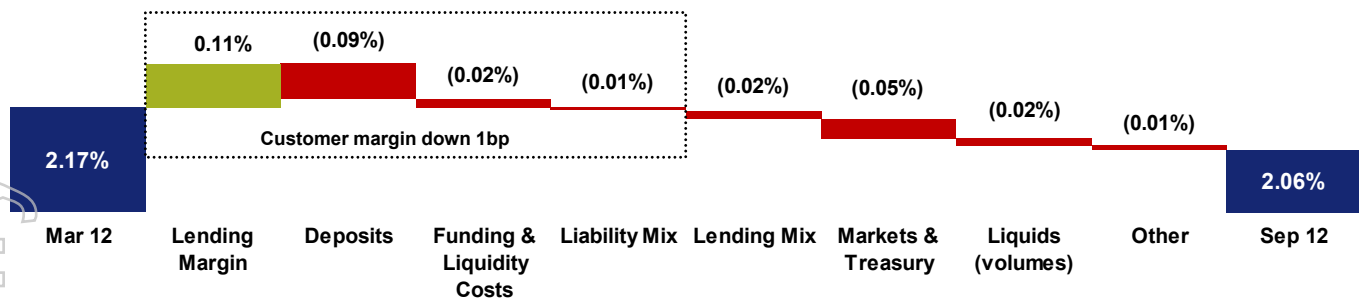
## Group financial result

(\$m)	Sep 12 Full Year	Sep 11 Full Year	Change on Sep 11	Sep 12 Half Year	Mar 12 Half Year	Change on Mar 12
Net interest income	13,297	13,092	1.6%	6,589	6,708	(1.8%)
Other operating income	3,412	3,016	13.1%	1,772	1,640	8.0%
NAB Wealth net operating income	1,515	1,486	2.0%	755	760	(0.7%)
Net operating income	18,224	17,594	3.6%	9,116	9,108	0.1%
Operating expenses	(7,828)	(7,974)	1.8%	(3,876)	(3,952)	1.9%
Underlying profit	10,396	9,620	8.1%	5,240	5,156	1.6%
B&DDs	(2,615)	(1,822)	(43.5%)	(1,484)	(1,131)	(31.2%)
Cash earnings	5,433	5,460	(0.5%)	2,605	2,828	(7.9%)
Cash ROE (%)	14.2%	15.2%	(100bps)	13.5%	15.0%	(150bps)
Spot GLAs (\$bn)	500.9	482.1	3.9%	500.9	490.4	2.1%

 National Australia Bank

# Net interest margin

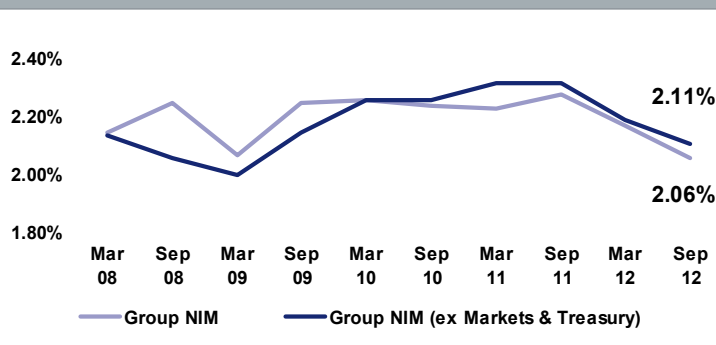
## Group net interest margin – half-on-half attribution analysis



## Business unit net interest margin

(%)	Sep 12	Margin change on Mar 12	Customer margin <sup>1</sup> change on Mar 12
Business Banking	2.50	(6bps)	(5bps)
Personal Banking	2.04	2bps	7bps
UK Banking	1.97	(12bps)	(13bps)
NZ Banking	2.38	(3bps)	1bp
Group	2.06	(11bps)	(1bp)

## Group net interest margin

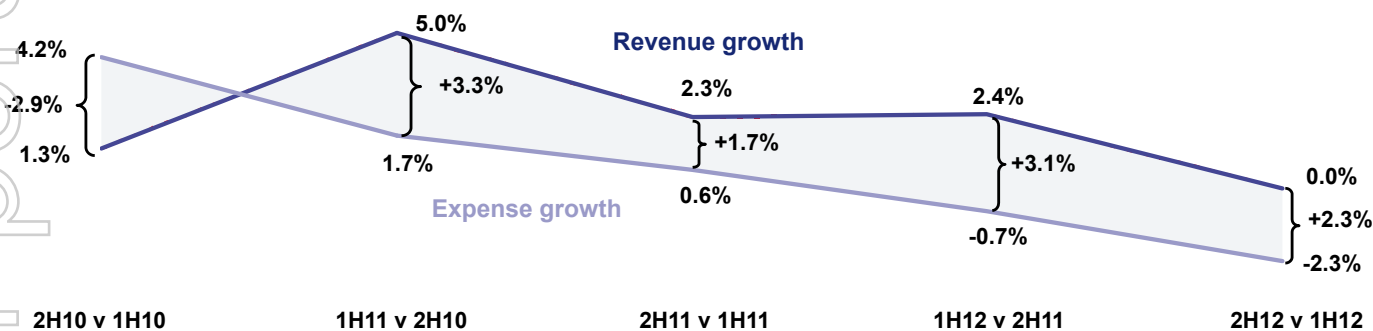


13 (1) Customer margin comprises lending margin, deposit and funding costs and liability mix



# Maintaining positive jaws

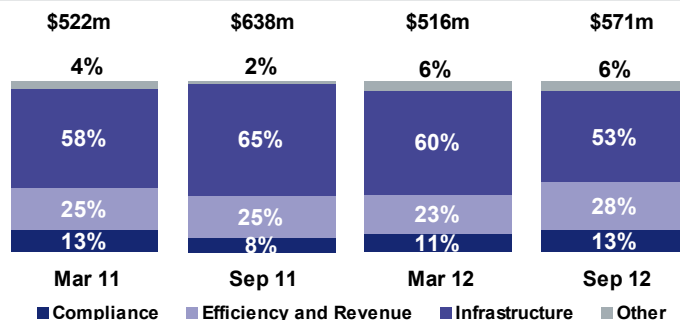
## Jaws momentum (ex SCDO and FX)



## Capitalised software balance

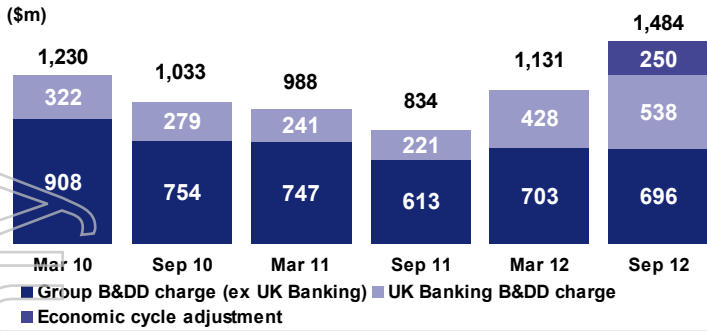


## Investment spend

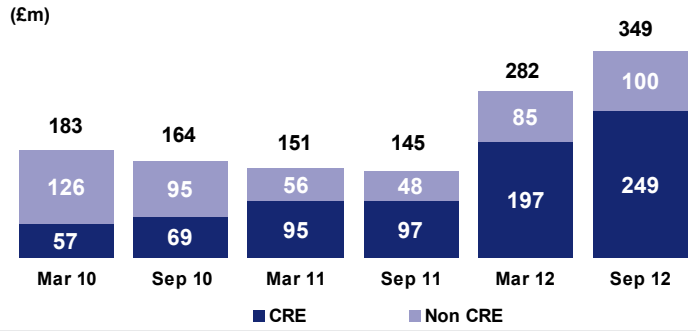


# Group B&DD

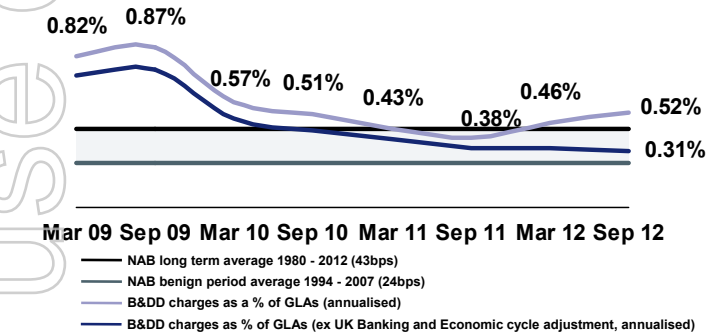
## B&DD charge



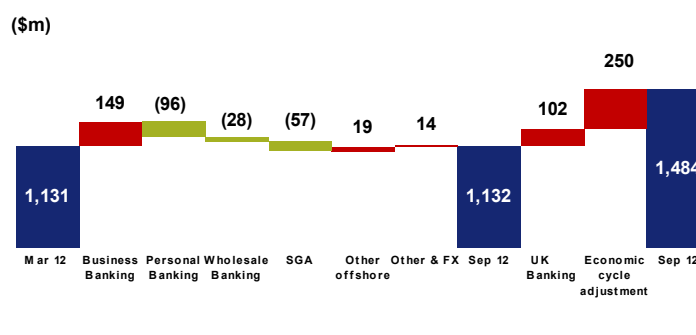
## UK Banking B&DD charge



## B&DD charge to GLAs – compared to norms

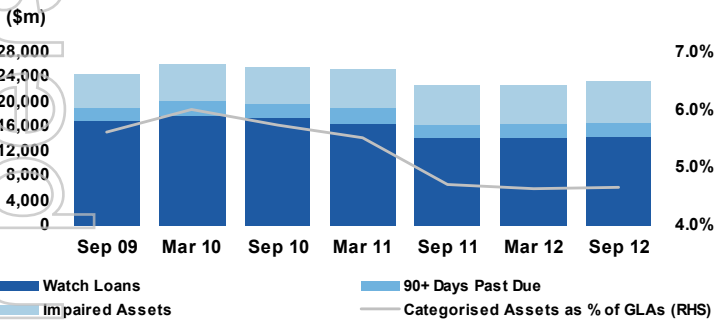


## B&DD charge by business (constant currency)

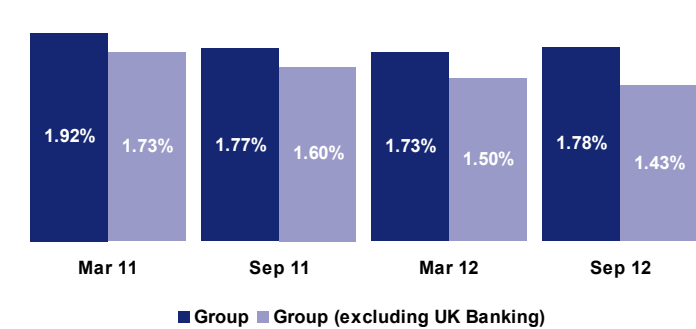


# Asset quality and coverage ratios

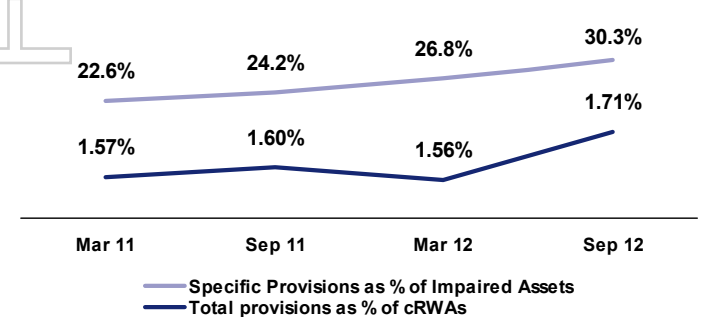
## Categorised assets by class



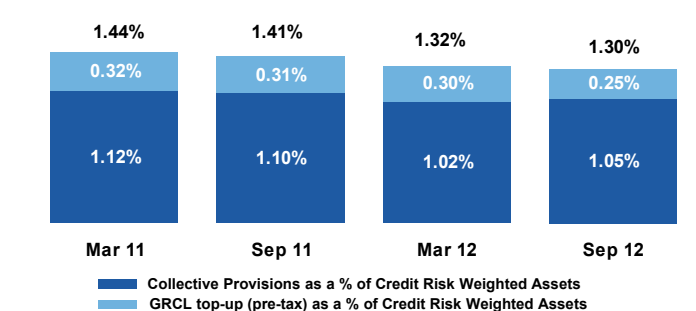
## 90+ DPD & impaired assets as a % of GLAs



## Total and specific provision coverage



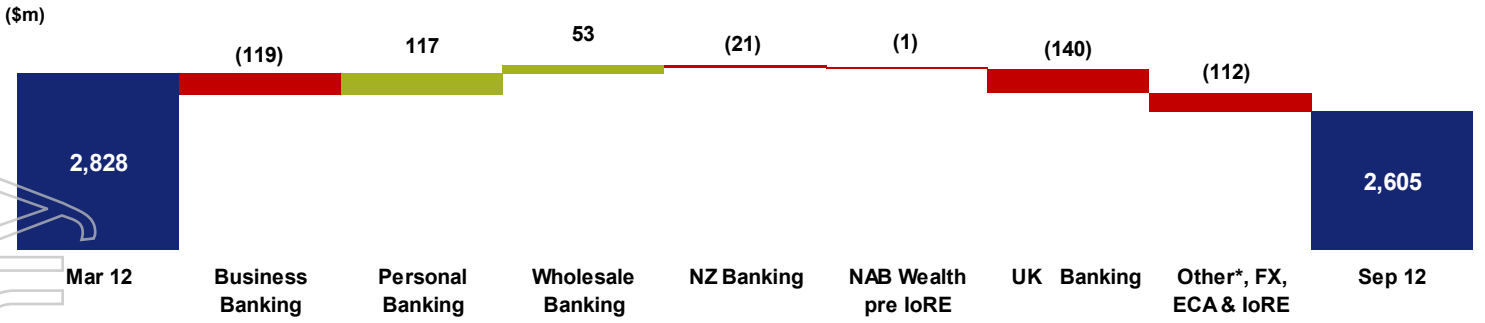
## Coverage ratios (with and without GRCL top-up)



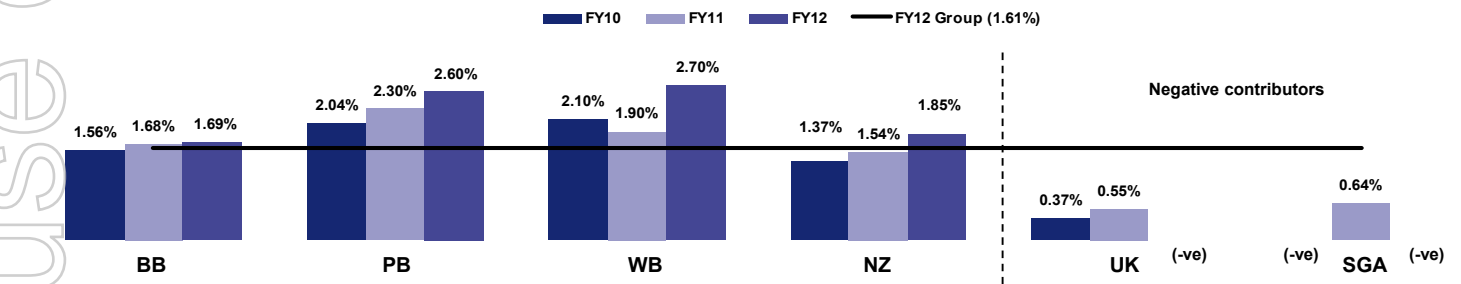


# Business unit contributions

## Cash earnings – attribution analysis by business (constant currency)



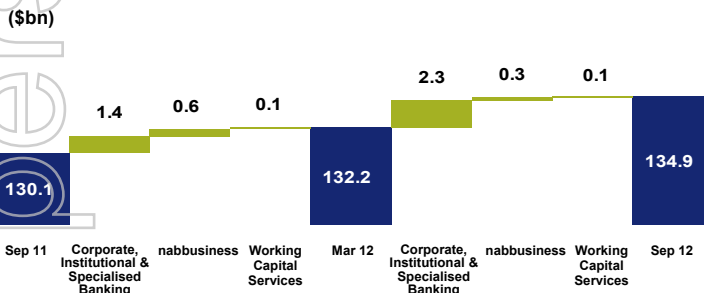
## Annual return on average RWAs for Banking Business Units



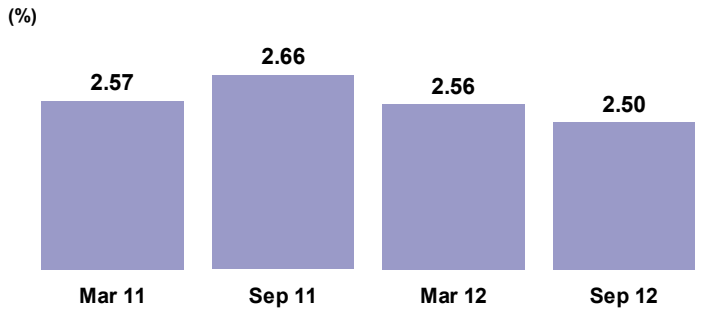
17 (\*) Other comprises SGA, Group Funding, Group Business Services, other supporting units, Asia Banking and Great Western Bank

# Business Banking

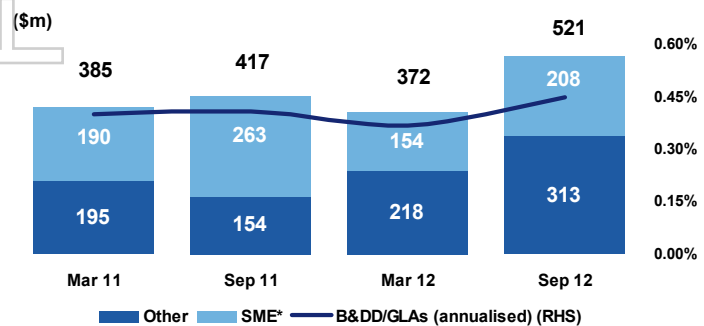
## Business lending volumes<sup>1</sup>



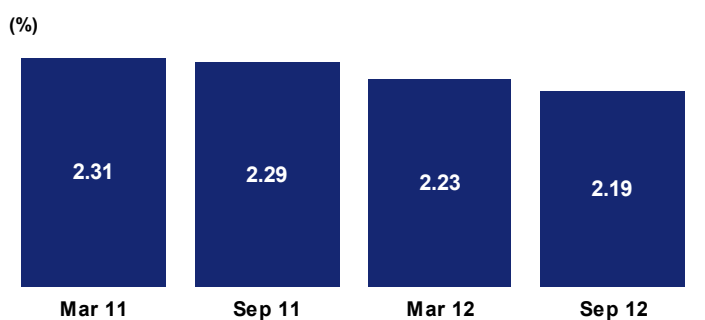
## Net interest margin



## B&DD charge



## 90+ DPD and GIAs as a % of GLAs

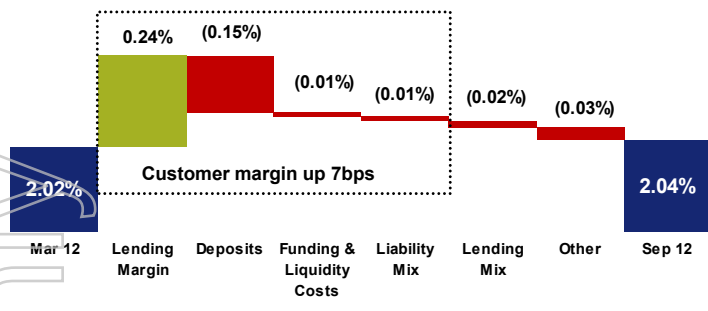


(1) Updated to reflect transfers of customers between business units  
 (\*) SME business data reflects the nabusiness segment of Business Banking which supports business customers with lending typically up to \$25m, excluding the Specialised Businesses

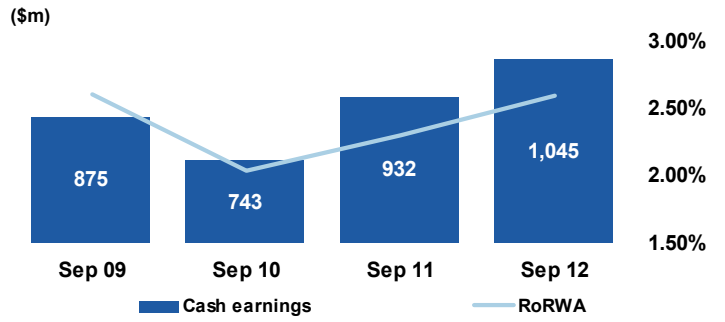


# Personal Banking

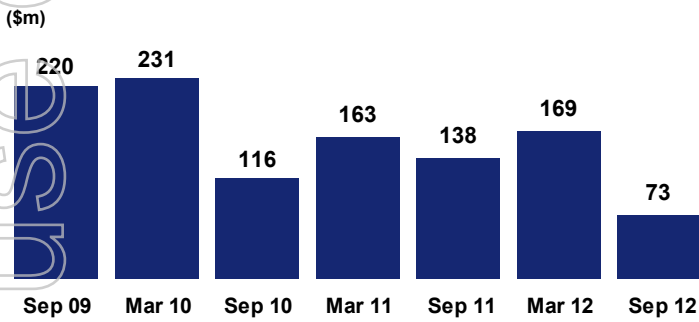
## Sequential margin analysis



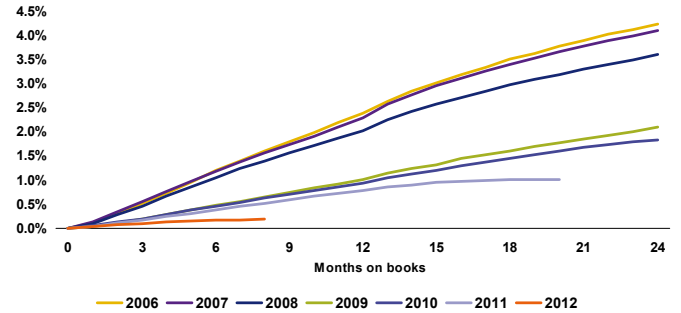
## Cash earnings and RoRWA



## B&DD charge

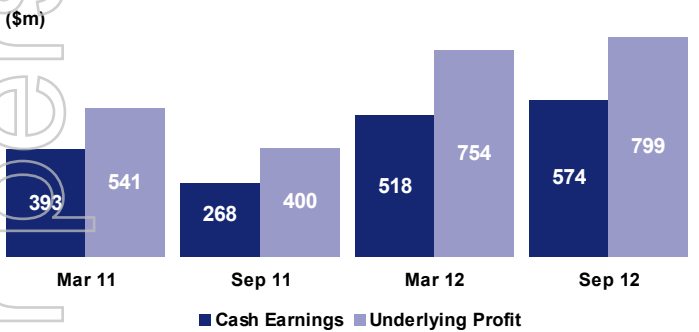


## Australian mortgages - cumulative 30+ DPD



# Wholesale Banking

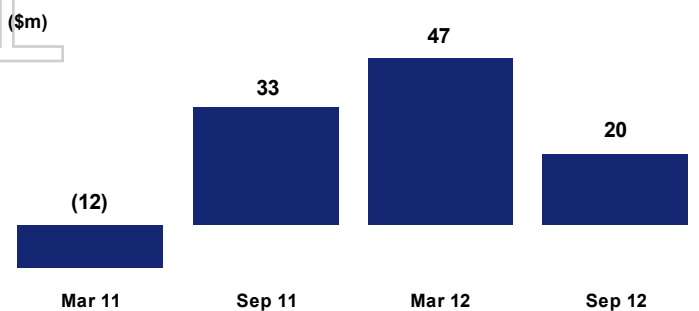
## Cash earnings and underlying profit



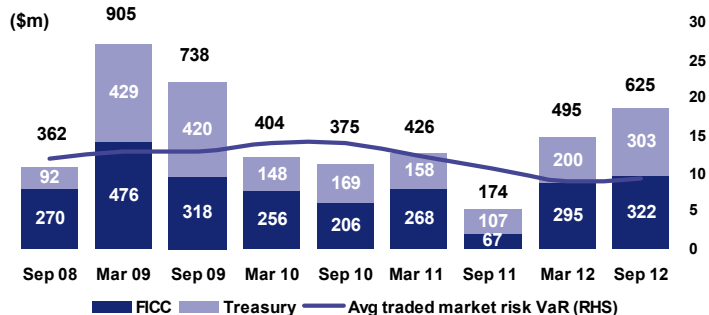
## Customer and risk income



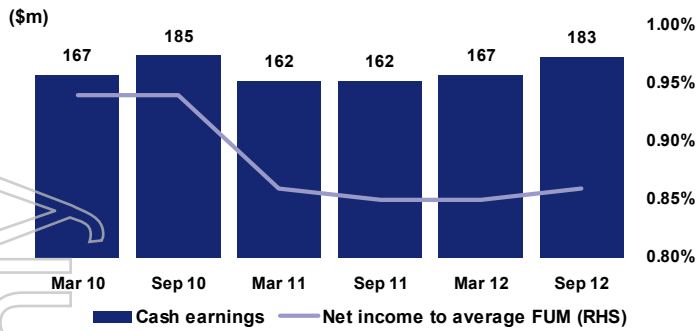
## B&DD charge



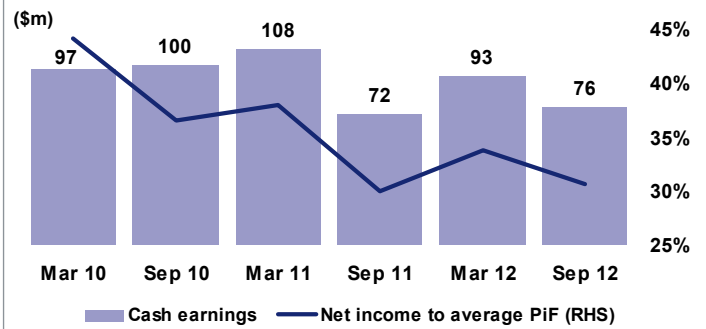
## Risk income



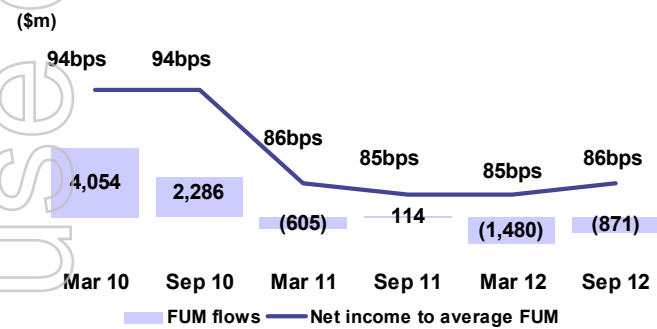
## Investments cash earnings and margin



## Insurance cash earnings and income to average PiF



## FUM<sup>1</sup> net funds flow and investment margins



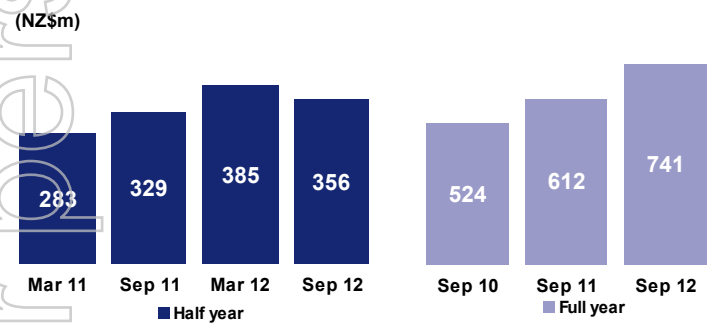
- New products and services delivered including:
  - MLC Insurance
  - MLC Wrap and refresh of MasterKey Fundamentals
  - Three new MLC Direct advice stores
  - Launch of nabtrade
  - Launch of new retirement solutions products pending
- Increased presence in direct asset management
- Growth in aligned advisor numbers of 82 or 8.1%

21 (1) FUM based on a proportional ownership basis

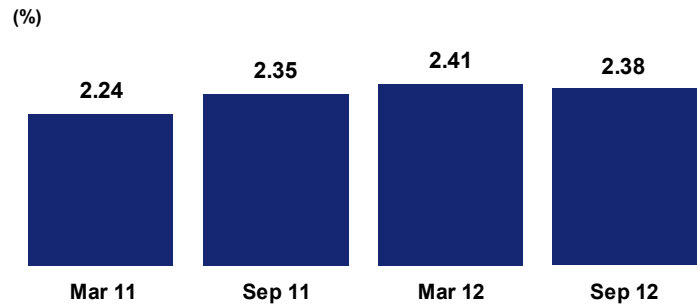


# New Zealand Banking

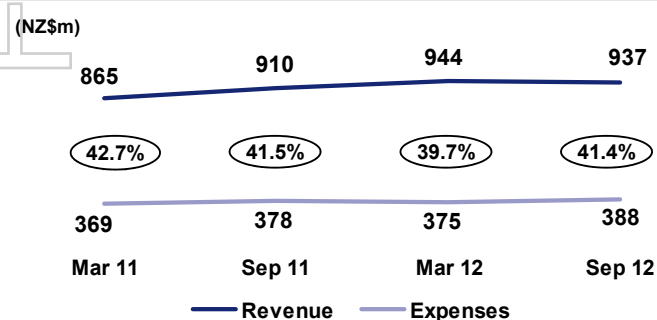
## Cash earnings



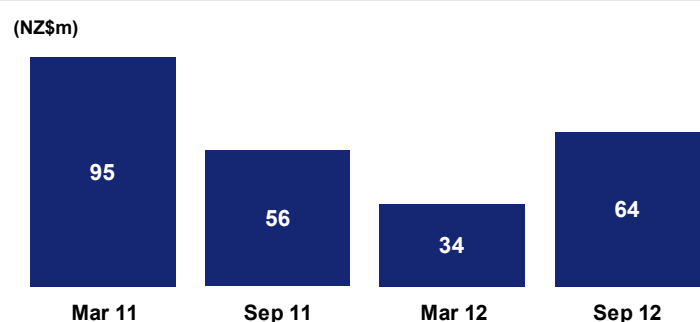
## Net interest margin



## Revenue v expense growth



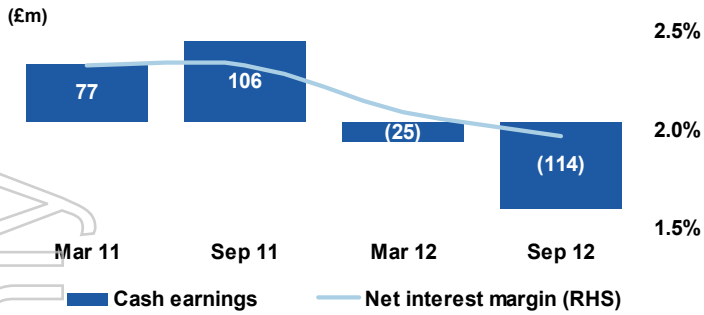
## B&DD charge



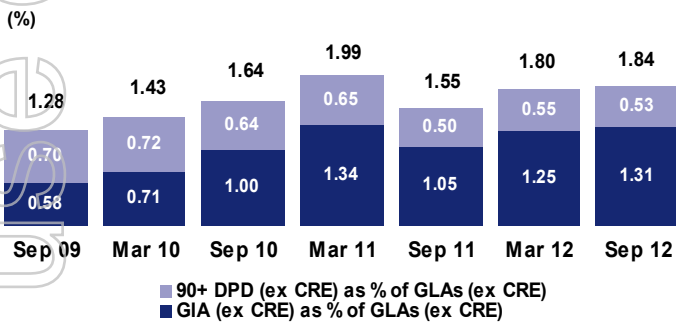
(%) Cost to income ratio



## Cash earnings and NIM



## Credit quality excluding CRE



## UK Banking pro forma

	2H12 Reported	CRE transfer portfolio	2H12 Pro forma
Cash earnings (£m)	(114)	(163)	49
Cash RoRWAs (%)	(74bps)	(112bps)	38bps
CB Tier 1 ratio (%)	9.6%	200bps	11.6%
CB SFI (%) <sup>1</sup>	92%	19%	111%
CB Assets (£bn)	44.2	(5.2)	39.0
CB funding gap (£bn) <sup>2</sup>	7.3	(5.6)	1.7

## Other matters

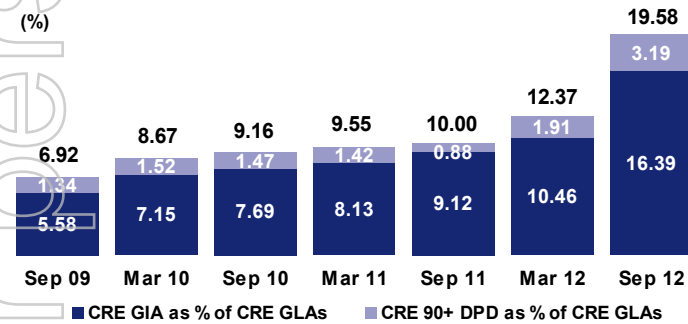
- PPI claims experience stabilising - provision of £108m remaining at Sep 2012 (£169m at March 2012)
- Provision of £48m relating to other customer redress in the UK, including claims relating to interest rate products
- Pension deficit was £301m at Sep 2012 up from £85m at Mar 2012

(1) Funding ratios have been restated. Securitised assets and net working capital are no longer adjusted from core assets and central bank deposits are now excluded from customer deposits.  
 (2) Funding gap represents the difference between gross loans & acceptances and deposits

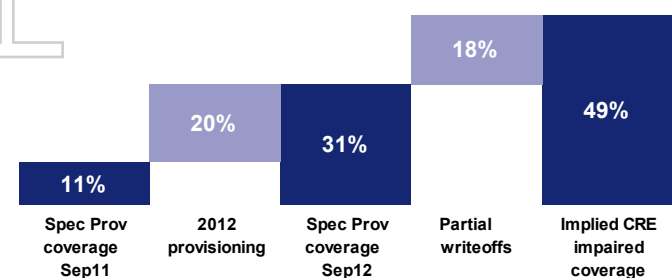


# UK Commercial Real Estate portfolio

## UK CRE credit quality



## UK CRE impaired loan coverage



Note: CRE specific provision over CRE impaired assets

## UK commercial property capital values

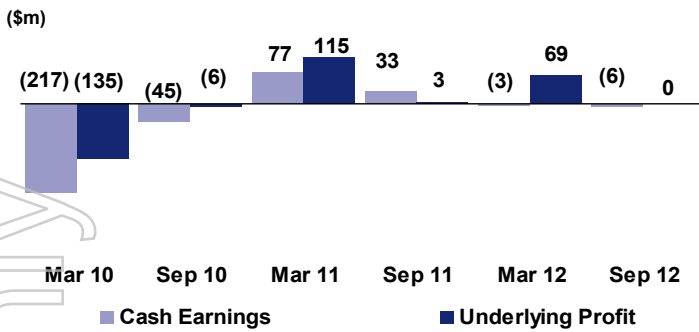


Source: IPD



## Other international businesses

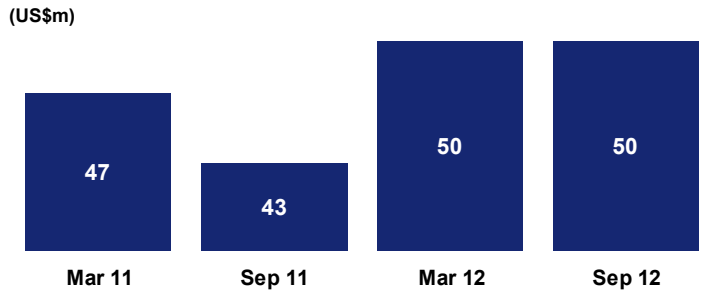
### SGA – cash earnings & underlying profit



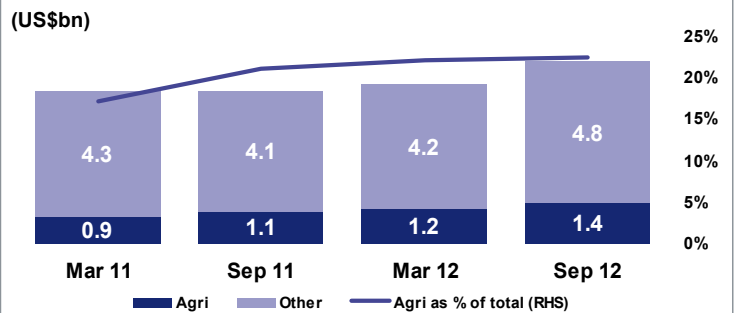
### Removed 'sold protection' on SCDOs

- Removed \$1.5bn of credit risk
- \$4.1bn RWA reduction
- \$360m of hedge premium cost accelerated
- MTM 'noise' has been removed
- No economic risk remaining

### Great Western Bank – cash earnings

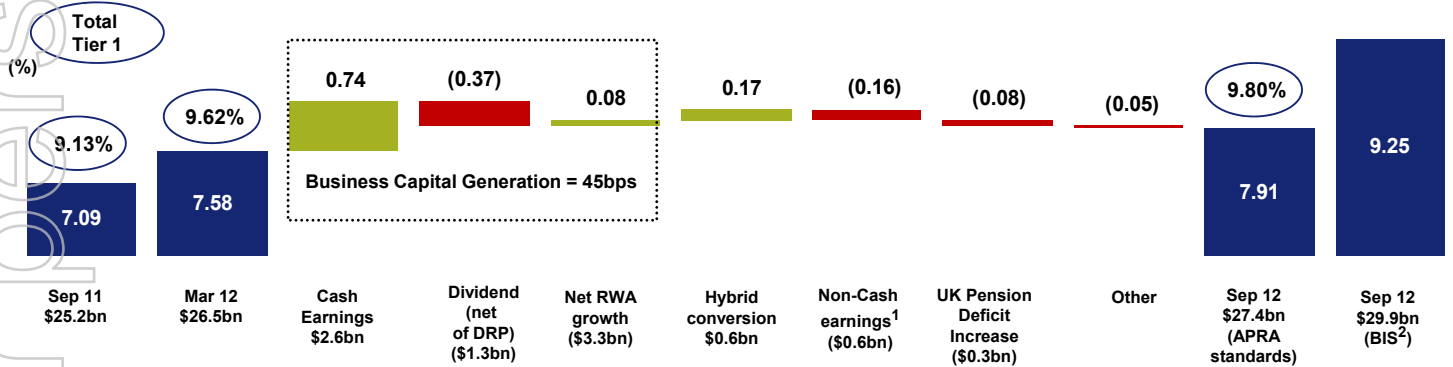


### GWB – loan portfolio composition



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## Strong estimated Basel III Common Equity Tier 1 capital position



- Greater certainty around APRA capital reforms package
- Basel III Common Equity Tier 1 target > 7.5% from 1 January 2013
- \$500m hybrid scheduled to convert to NAB ordinary equity in November 2012 (estimated impact 14bps)
- Discount on the final dividend reinvestment plan has been removed
- Higher Operational RWAs will be required in the December 2012 quarter due to increased regulatory requirements (estimated impact 20bps)

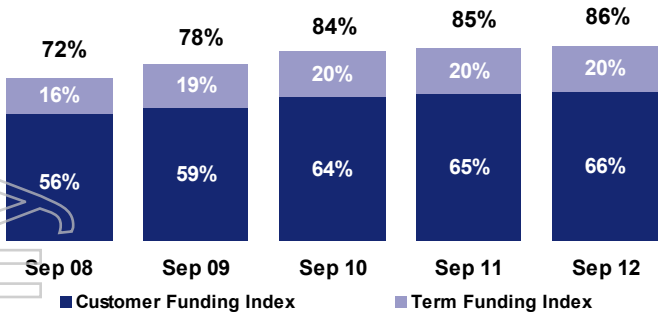
(1) Non-cash earnings impact after adjusting for distributions, treasury shares, UK goodwill, software impairment, and separately disclosed items not affecting regulatory capital

(2) BIS Basel III Common Equity Tier 1 excludes Treasury shares (33bps)

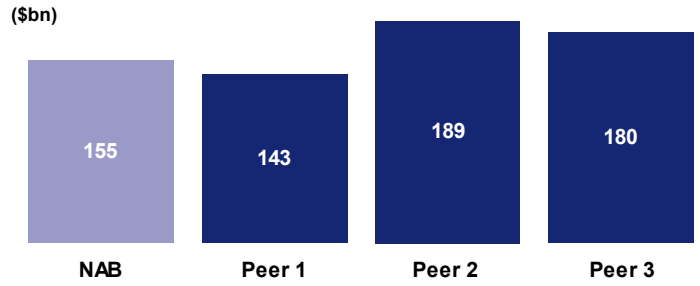
National Australia Bank

# Balance sheet strength remains a priority

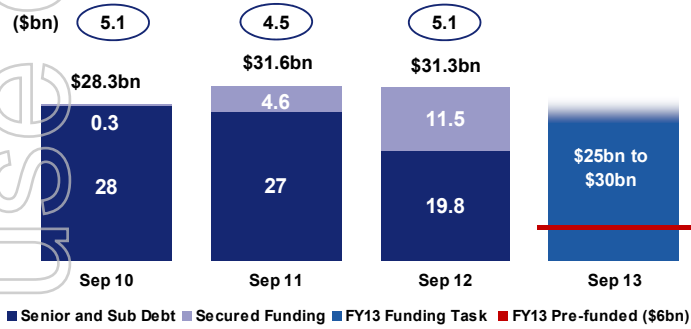
## Group Stable Funding Index (SFI)<sup>1</sup>



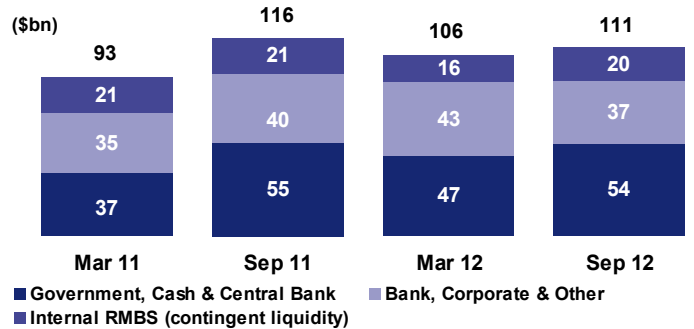
## Australian funding gap<sup>2</sup>



## Term funding – volume and tenor<sup>3</sup> of new issuance



## Stable and conservative liquid assets



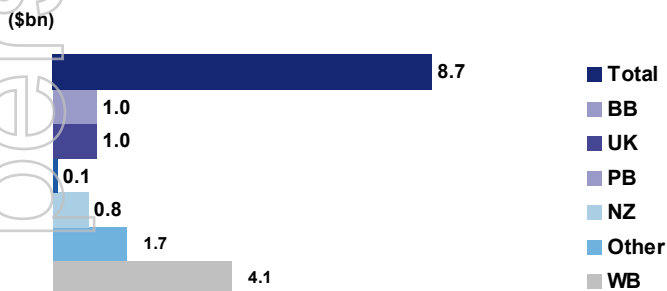
### Tenor<sup>3</sup>

- (1) September 12 funding ratios have been restated. Net working capital is no longer adjusted from core assets and central bank deposits are now excluded from customer deposits
- (2) Australian funding gap = total loans and acceptances less total deposits (excluding certificates of deposit and financial corporation deposits). Source: APRA Monthly Banking Statistics (Aug 2012)
- (3) Weighted average maturity (years) of term funding issuance



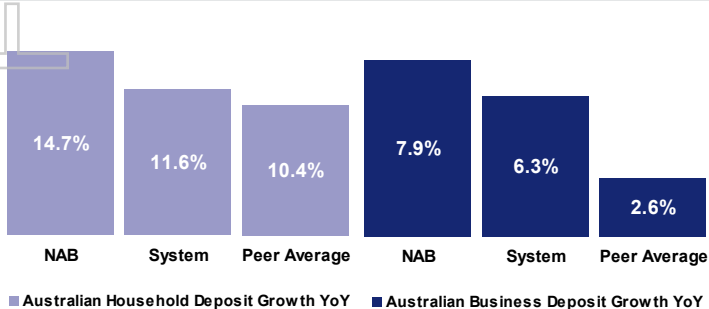
# Remain focused on growing customer deposits

## Customer deposits growth less lending growth -- Sep 12 vs Mar 12

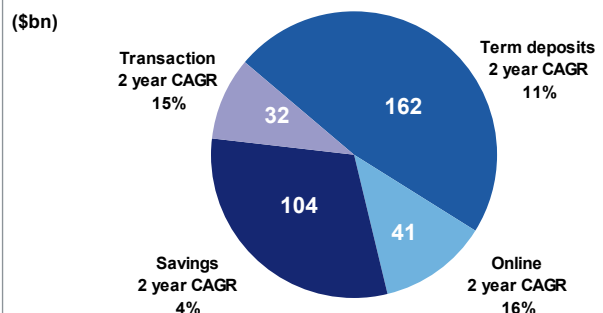


- Deposit growth fully funded lending growth in FY12
- Growing number of deposit accounts with lower balance – 97% of deposit accounts have balance <\$250k
- Lowest Financial Institution deposit market share of major banks
- Half of Wholesale Banking deposit growth in Basel III compliant deposits

## Emphasis on household and small business deposits<sup>1</sup>



## Group customer deposits by product – Sep 12



## Summary

- Good momentum in the Australia & NZ franchises
- UK disappointing but restructure underway
- Customer margin stable despite rising deposit costs
- Strong cost performance and continuing to invest
- ECA increase a prudent response to economic outlook
- Further strengthened funding position
- Above new Basel III capital minimum

# Questions

# Additional Information

## Business Banking

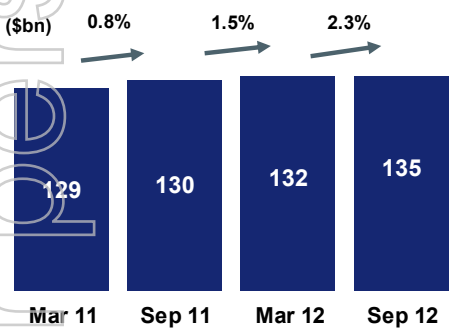
- Personal Banking
- Wholesale Banking
- NAB Wealth
- NZ Banking
- UK Banking
- Great Western Bank
- Specialised Group Assets
- Asset Quality
- Capital and Funding
- Other
- Economic Outlook

Business Banking

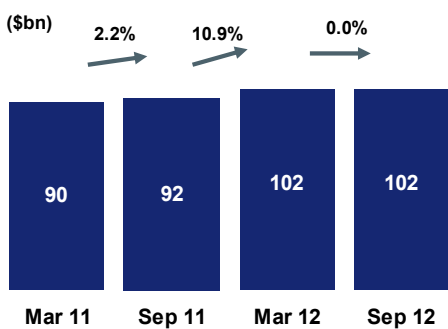


## Business Banking

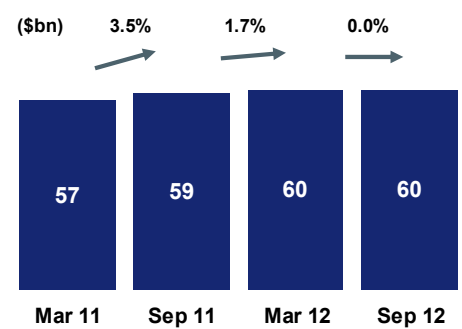
### Business lending



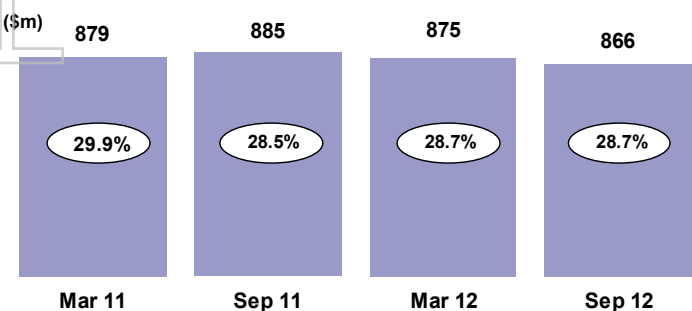
### Customer deposits<sup>1</sup>



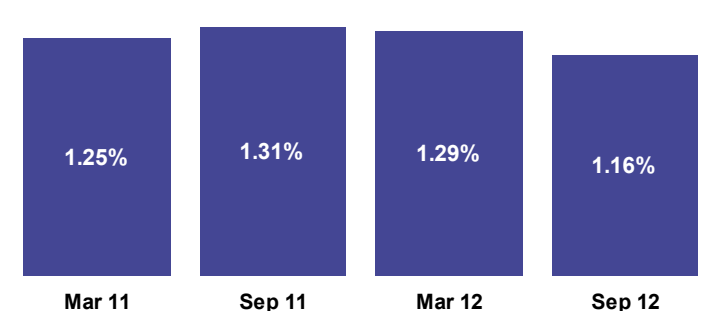
### Housing lending



### Costs



### Cash earnings on average assets



% Cost to income ratio



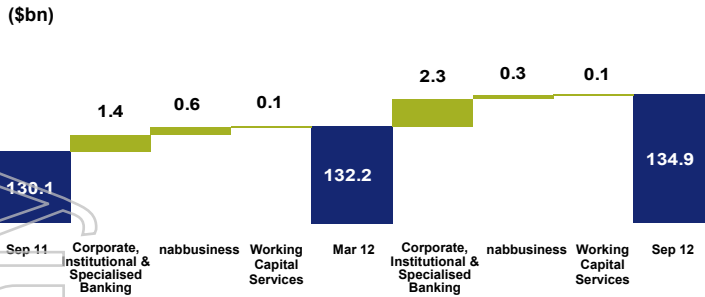
(1) Includes retail and institutional deposits



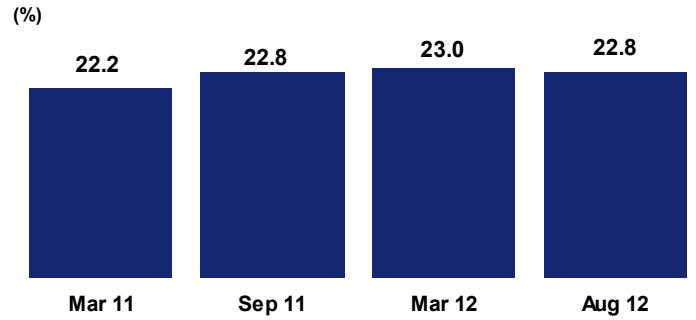


# Business Banking

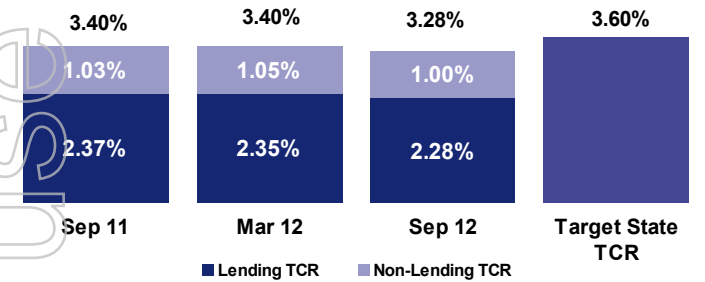
## Business lending volumes<sup>1</sup>



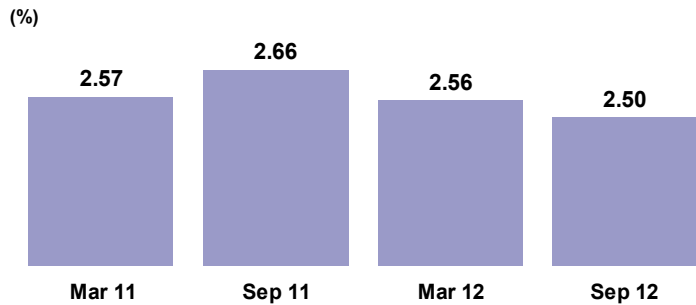
## Business lending market share<sup>2</sup>



## Enterprise cross-sell focus – Total Customer Returns



## Net interest margin

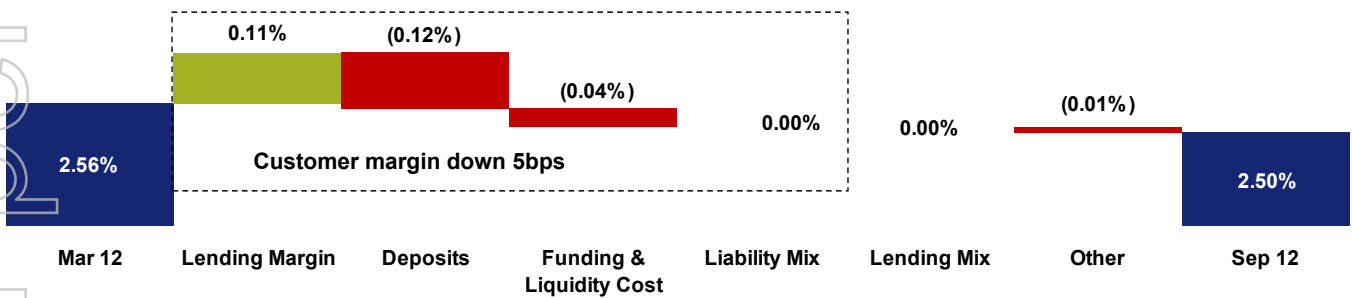


- (1) Updated to reflect transfers of customers between business units
- (2) RBA Financial System/NAB

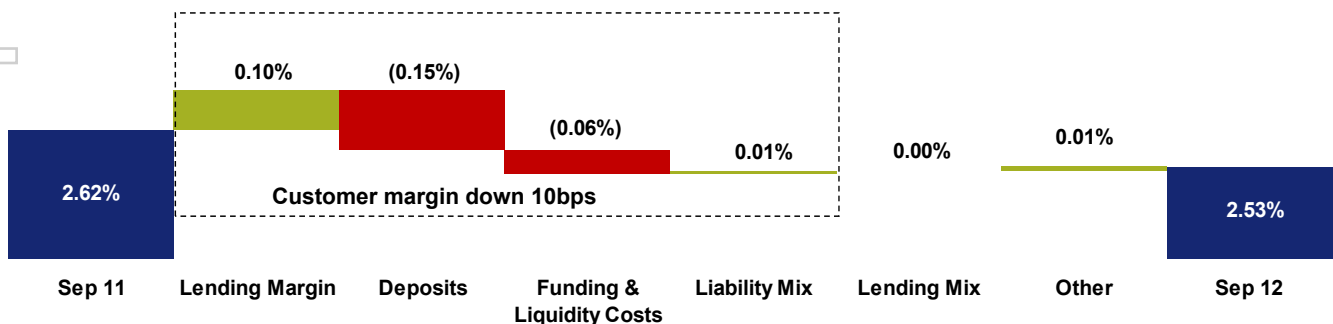


# Business Banking: Net interest margin

## September 12 v March 12

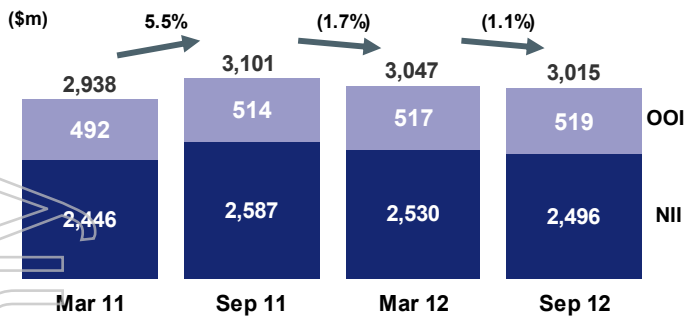


## September 12 v September 11

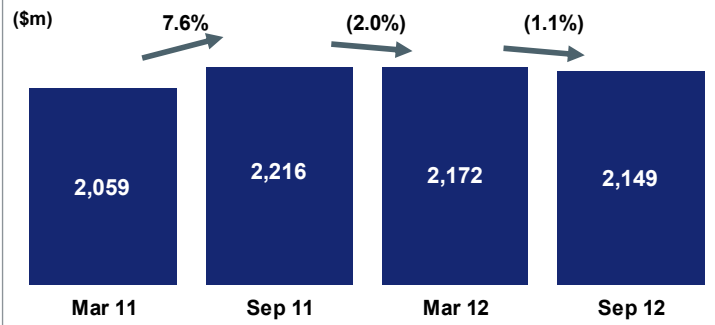


# Business Banking

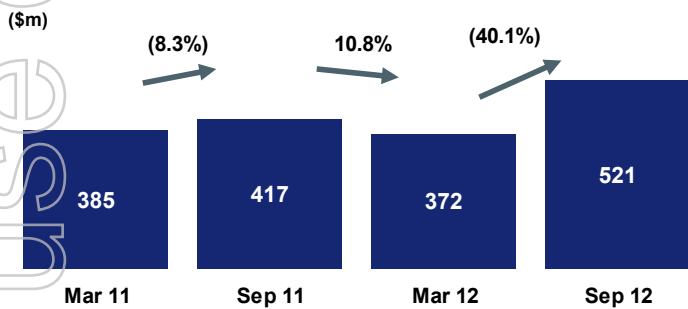
## Revenue



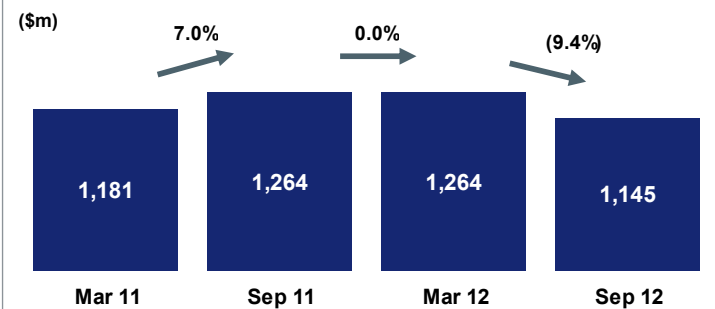
## Underlying profit



## B&DD charge

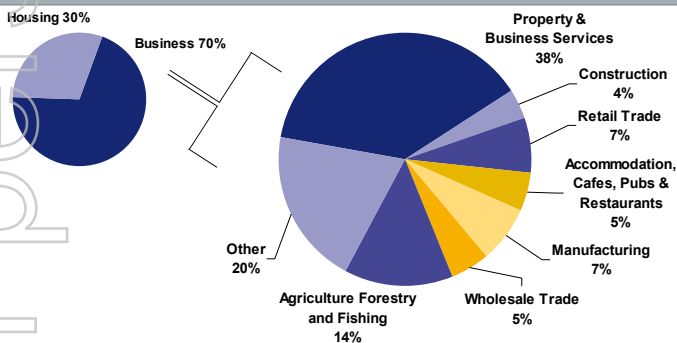


## Cash earnings

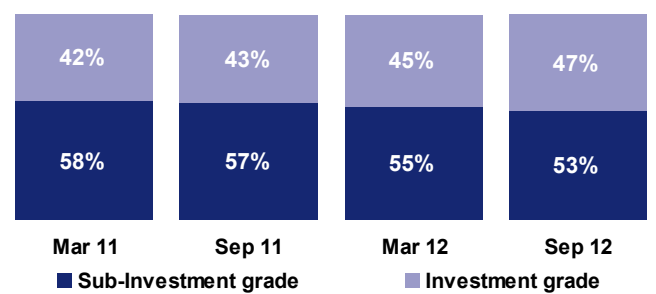


# Business Banking: Asset Quality

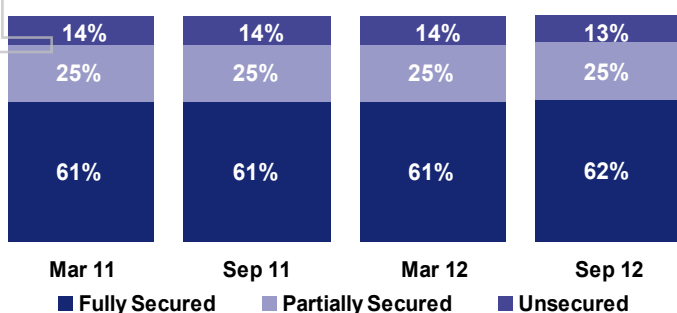
## Diverse assets<sup>^</sup>



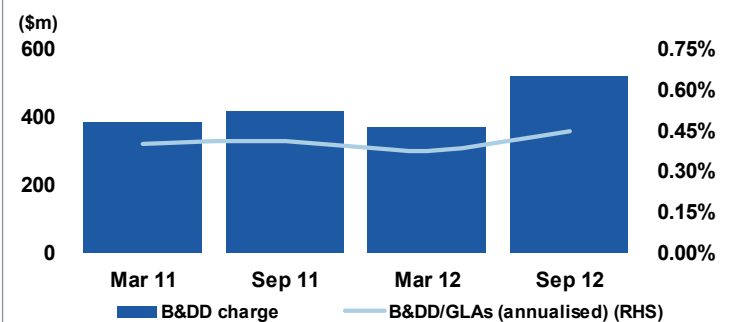
## Portfolio quality<sup>\*</sup>



## Well secured – business products<sup>\*\*</sup>



## B&DD charge

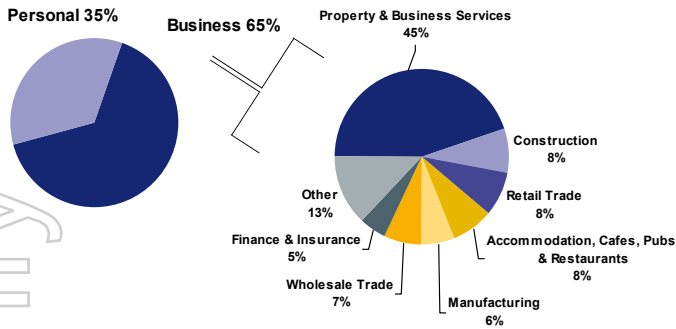


(<sup>^</sup>) Based on product split  
 (<sup>\*</sup>) Portfolio quality now shown on a probability of default basis, previously expected loss basis  
 (<sup>\*\*</sup>) Based upon security categories in internal ratings systems

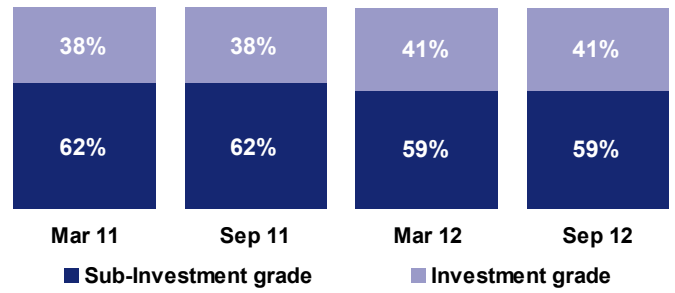


# Business Banking: SME Business\* Asset Quality

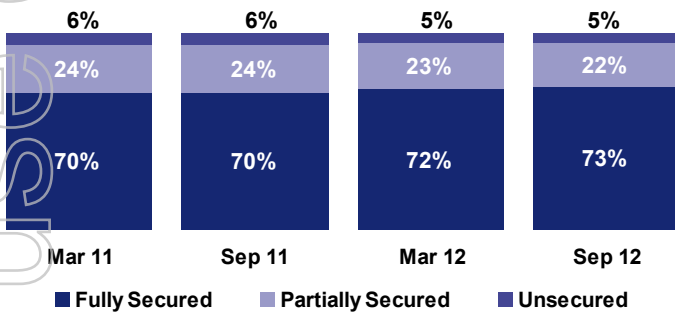
## Diverse assets<sup>^</sup>



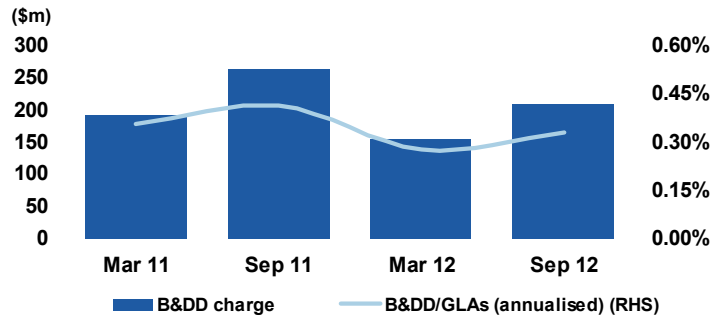
## Portfolio quality<sup>\*\*</sup>



## Well secured – business products<sup>\*\*\*</sup>



## B&DD charge



(<sup>^</sup>) Based on customer split  
 (<sup>\*</sup>) SME business data reflects the nabbusiness segment of Business Banking which supports business customers with lending typically up to \$25m, excluding the Specialised Businesses  
 (<sup>\*\*</sup>) Portfolio quality now shown on a probability of default basis, previously expected loss basis  
 (<sup>\*\*\*</sup>) Based upon security categories in internal ratings systems



## Additional Information

Business Banking

Personal Banking

Wholesale Banking

NAB Wealth

NZ Banking

UK Banking

Great Western Bank

Specialised Group Assets

Asset Quality

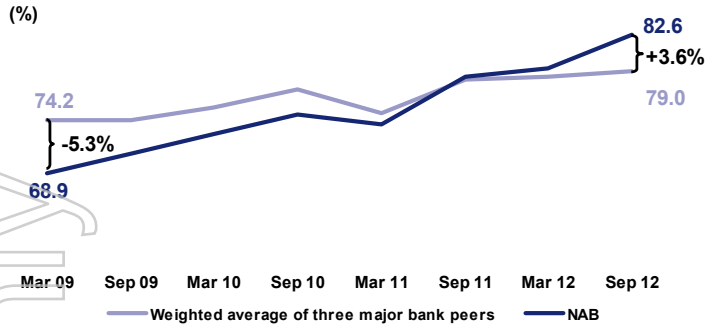
Capital and Funding

Other

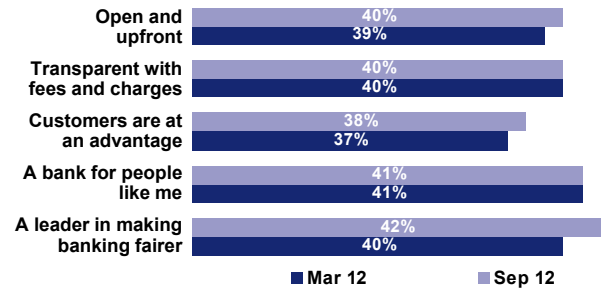
Economic Outlook

# Personal Banking

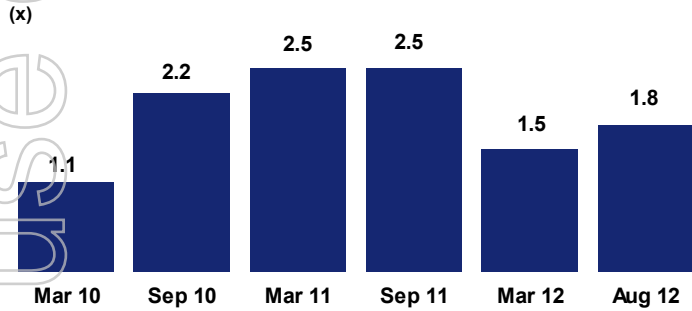
## MFI customer satisfaction<sup>1</sup>



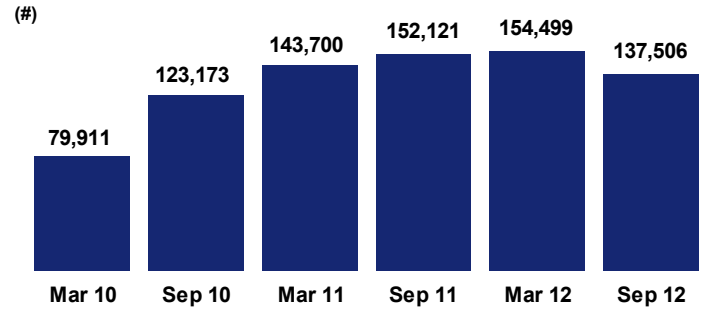
## Sweeney research brand tracker<sup>2</sup>



## Home loan multiple of system growth<sup>3</sup>



## Net transaction account growth

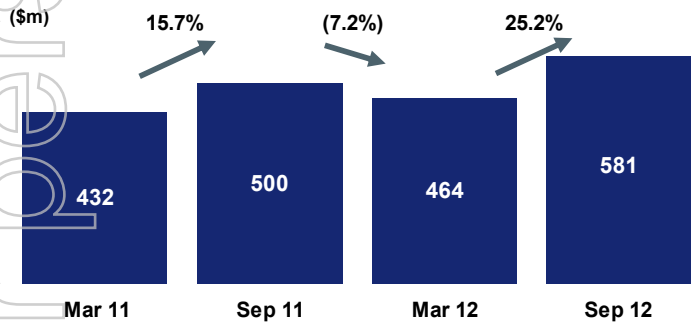


- (1) Roy Morgan Research, Aust MFIs, population aged 14+, six month moving average. Customer satisfaction is based on customers who answered very/fairly satisfied. NAB compared with the weighted average of the three major banks (ANZ, CBA, WBC)
- (2) Sweeney Research Brand Tracker, refers to NAB
- (3) RBA Financial System / NAB total Australian mortgages

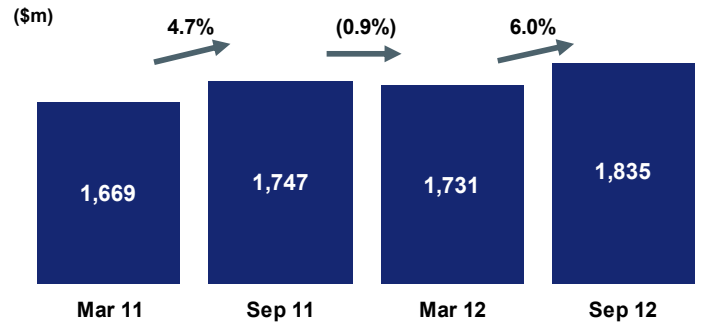


# Personal Banking

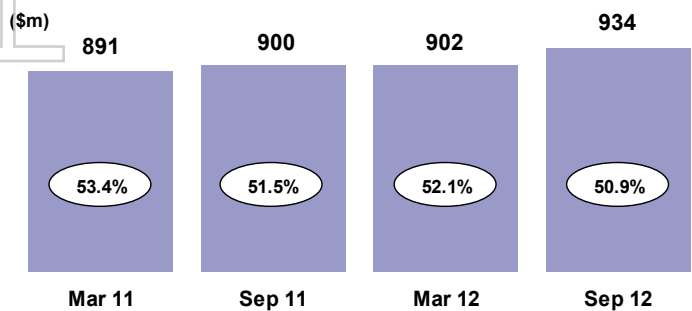
## Cash earnings



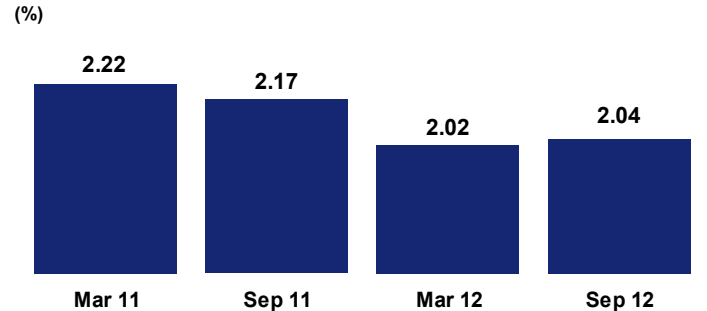
## Revenue



## Costs



## Net interest margin

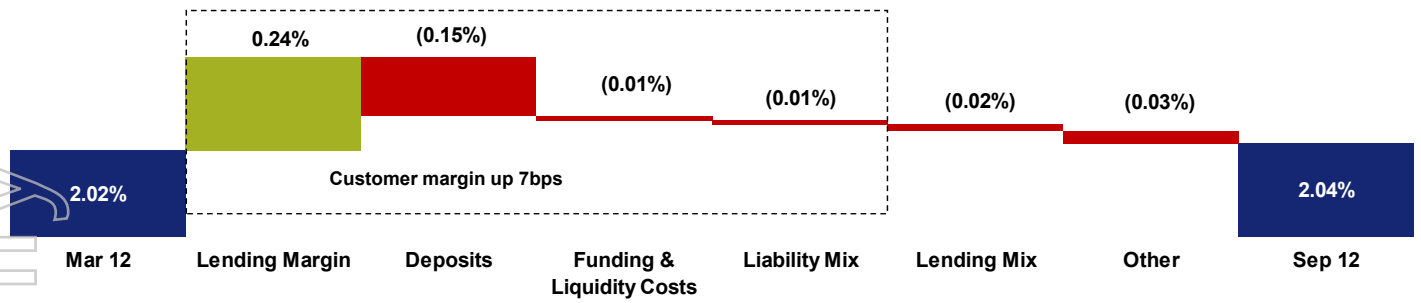


% Cost to income ratio

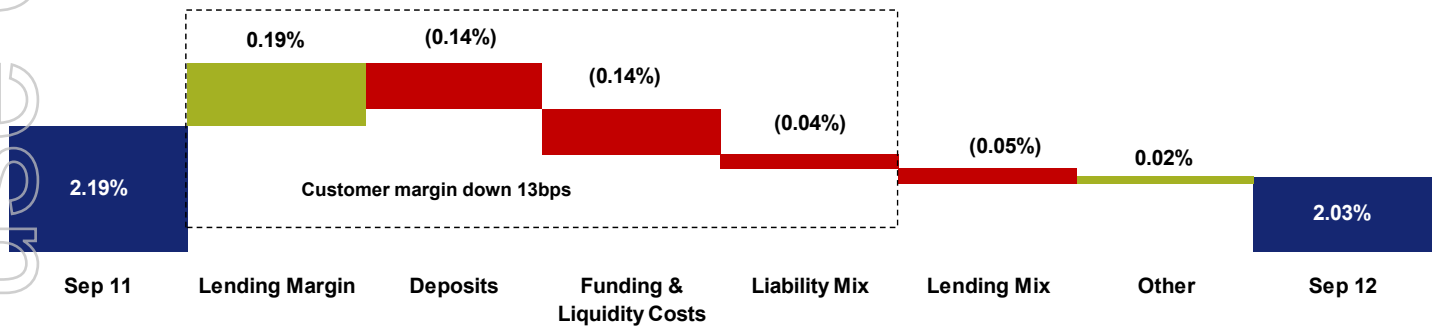


# Personal Banking: Net interest margin

## September 12 v March 12



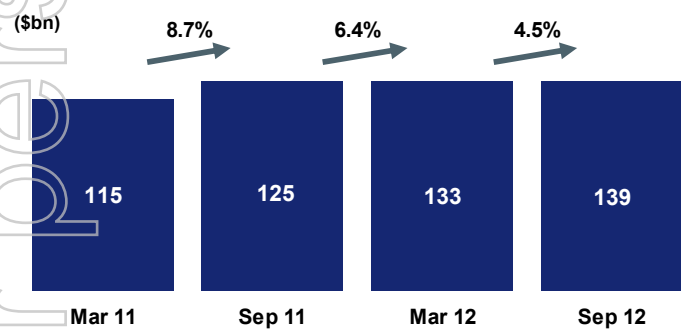
## September 12 v September 11



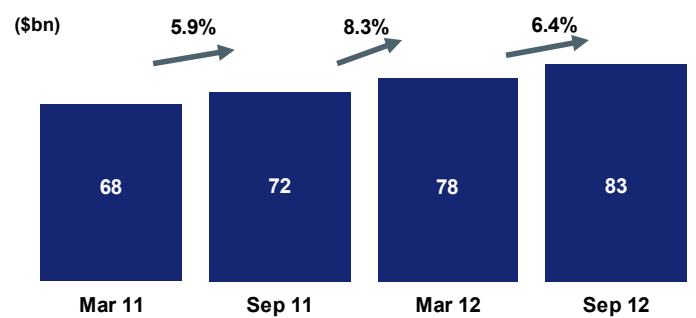
National Australia Bank

# Personal Banking

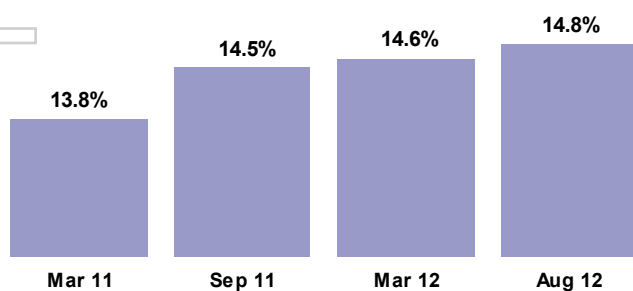
## Housing loans



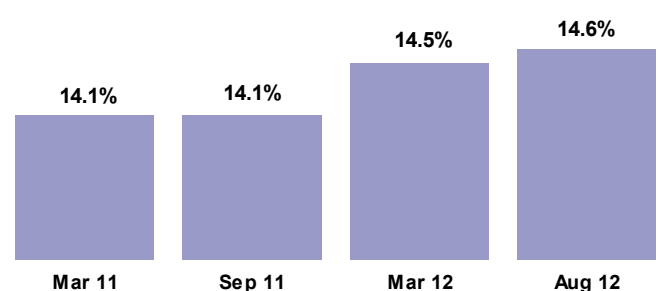
## Customer deposits



## Housing loan market share<sup>1</sup>



## Household deposits market share<sup>2</sup>

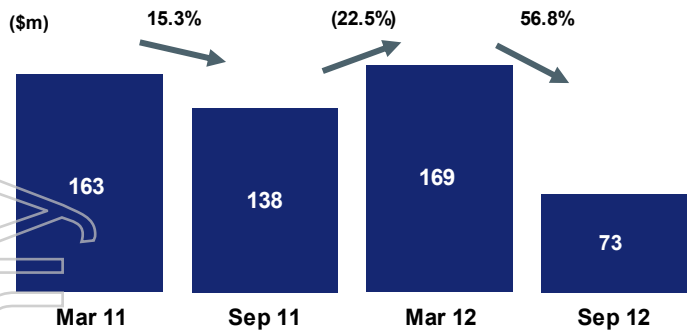


(1) RBA Financial System / NAB  
(2) APRA Banking System / NAB

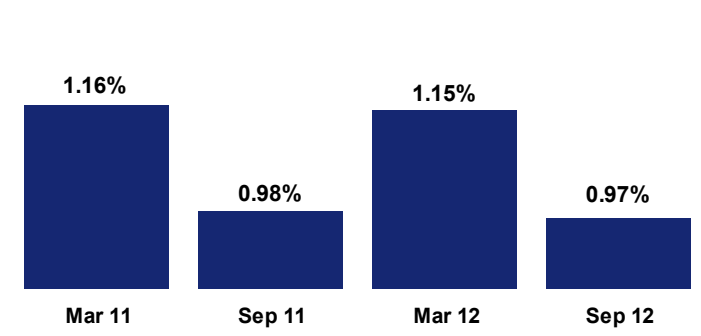
National Australia Bank

# Personal Banking: Asset quality

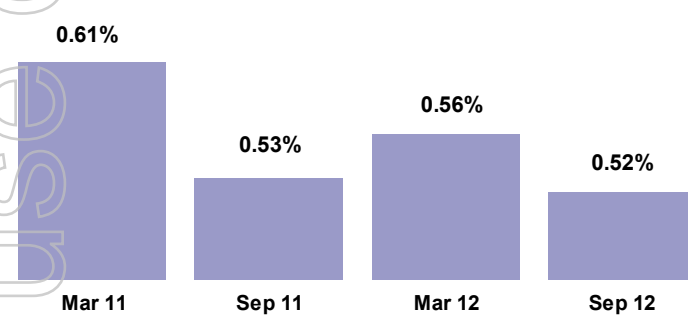
## B&DD charge



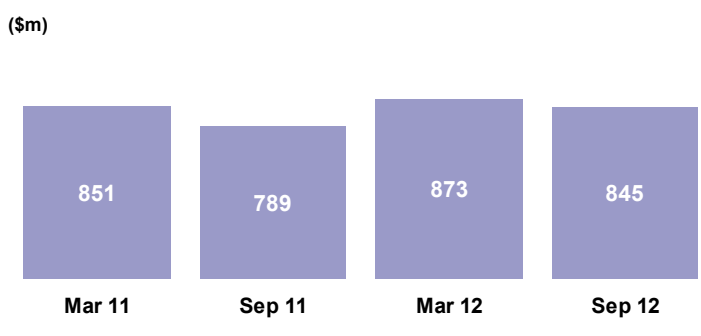
## Cards & personal loans 90+ DPD



## Mortgage 90+ DPD and impaired



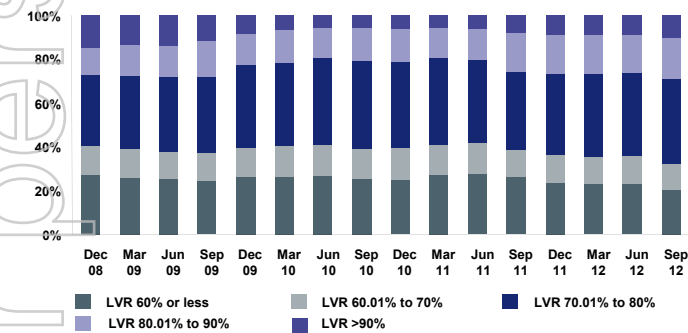
## Total 90+ DPD and impaired



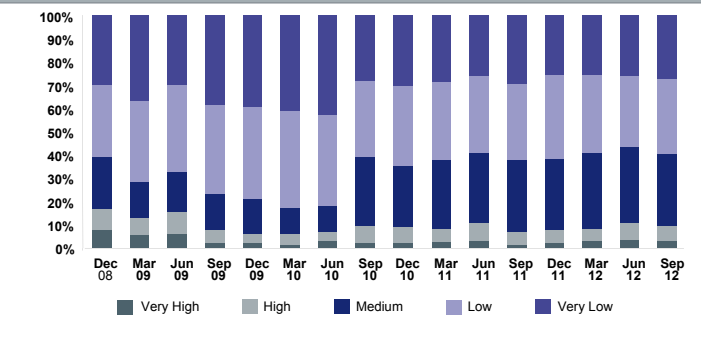
National Australia Bank

# Change in profile of mortgage approvals

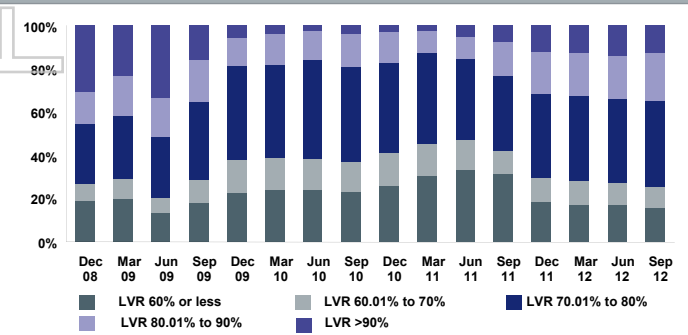
## LVR breakdown of final approvals (Australian Region)



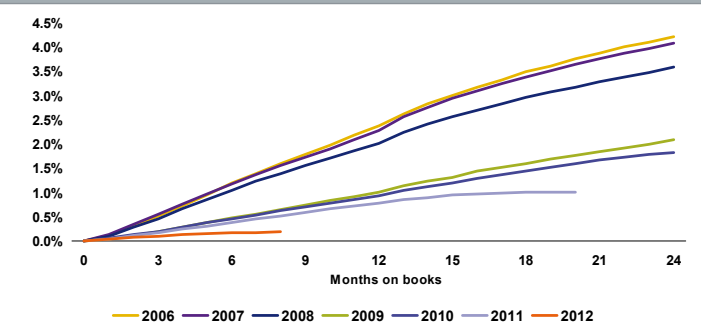
## Risk grade distribution of 90%+ LVR



## LVR breakdown of Homeside final approvals



## Australian mortgages – cumulative 30+ DPD



National Australia Bank

# Additional Information

Business Banking  
Personal Banking

# Wholesale Banking

NAB Wealth  
NZ Banking  
UK Banking  
Great Western Bank  
Specialised Group Assets  
Asset Quality  
Capital and Funding  
Other  
Economic Outlook

only  
Business

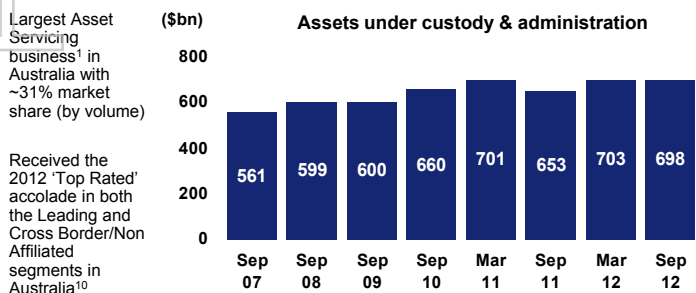


## Wholesale Banking

### Customer sales performance

	Current ranking	Previous ranking
Best advice on Use of Interest Rate Risk Management <sup>2</sup>	#1	#1
Lead Interest Rate provider where the relevant bank is lead credit provider <sup>2</sup>	#1	#1
Lead Interest Rate Derivative Bank <sup>2</sup>	#1	#3
Best Bank-delivered Industry Analysis <sup>2</sup>	#=2	#3
Provider of Interest Rate Swaps (% of primary relationship – Corporate) <sup>3</sup>	#1	#1
Provider of Spot Foreign Exchange (% of primary relationship – Corporate) <sup>3</sup>	#2	#2
Best Domestic Provider of FX Services as voted by Corporates – Australia <sup>4</sup>	#1	na
Interest Rate Derivatives Market Share <sup>5</sup>	#1	#4

### NAB Asset Servicing



### Originate to Distribute funding solutions

<p><b>Caltex Sub Notes</b> A\$550m ASX listed unsecured subordinated debt issuance Joint Lead Manager &amp; Joint Bookrunner September 2012</p>	<p><b>Port of Brisbane Pty Ltd</b> US \$550m USPP A \$1.14bn Project Finance Facilities Joint Lead Manager 2012</p>	<p><b>Leighton Holdings Limited</b> A\$425m Australian Syndicated Lease Facility Mandated Lead Arranger and Sole Bookrunner April 2012</p>
<p><b>SMHL SF Series 2012-1</b> A\$1bn Australian RMBS Issue Arranger and Joint Lead Manager April 2012</p>	<p><b>Hallet 5 Wind Farm</b> A\$134m Project Finance Facilities Mandated Lead Arranger, Working Capital Provider, Facility Agent &amp; Security Trustee May 2012</p>	<p><b>Sunshine Coast University Hospital PPP</b> Project Finance Facilities Mandated Lead Arranger and Coordinating Bank July 2012</p>

Wholesale Banking capabilities assist NAB's clients with direct access to funding markets as well as providing funding and investment products.

#### Infrastructure and natural resources

- #1 'Bank of Choice' for Non/Limited Recourse Project Financing <sup>6</sup>
- #1 Arranger in Power and Renewable sectors in Australia <sup>7</sup>
- #1 Arranger of project finance in Australian Infrastructure Public Private Partnership (PPP) projects <sup>8</sup>

#### Debt Capital Solutions

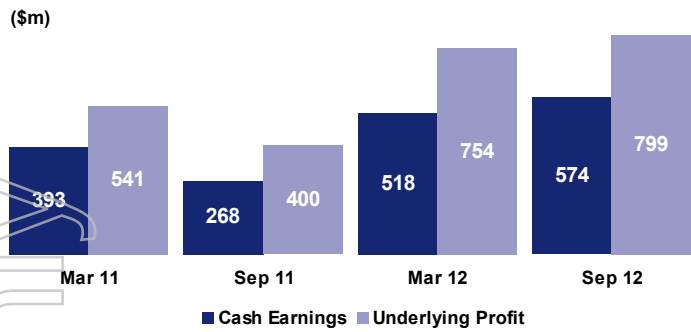
- #1 'Bank of Choice' for Debt Securities Issuances <sup>6</sup>
- #1 Bookrunner in AU securitisation league table <sup>9</sup>

(1) Australian Custodial Services Association, Total Assets Under Custody for Australian Investors, June 2012; (2) Peter Lee Associates - Large Corporate & Institutional Relationship Banking Australia Survey 2012. Ranking against the four major domestic banks; (3) East & Partners Australian Corporate Banking Market Survey, July 2012; (4) Asiamoney FX Poll 2012 (5) Peter Lee Associates - Interest Rate Derivatives Australia Survey 2011; (6) Peter Lee Associates 2012 Large Corporate and Institutional Relationship Banking Survey - Australia. Equal No. 1; (7) Infrastructure Journal MLA League Table - Australian Region, Power & Renewable Sectors, H1 2012; (8) Project Finance International 2009-2011 APAC MLA League Tables US\$ Project Allocation, NAB analysis ranking against four major domestic banks - cumulative volume; (9) Kanganews, Oct 1, 2012 AU Securitisation League Table, (including AUD and foreign currency tranches only) - Excl. Self-Lead Deals; (10) Global Custodian's 'Agent Banks in Major Markets Survey'



# Wholesale Banking

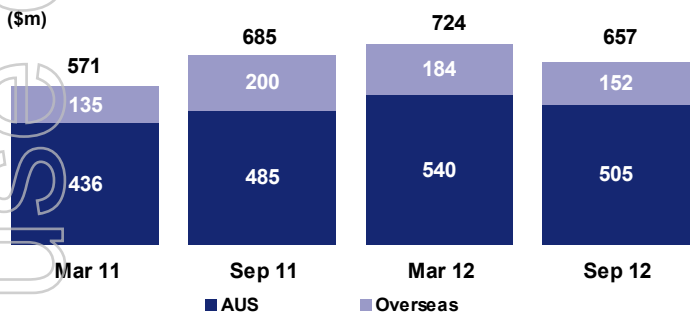
## Cash earnings and underlying profit



## Revenue by line of business



## Customer income by geography



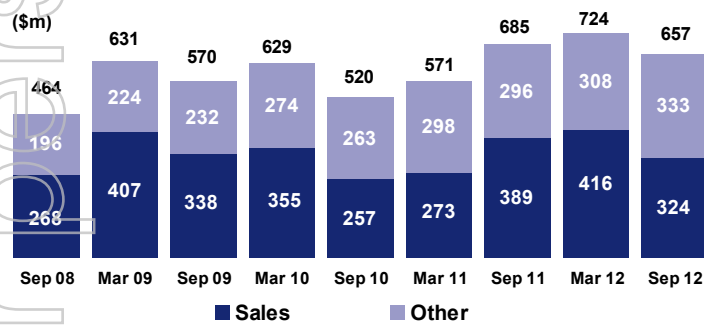
- Customer income up 10% on the September 11 year, driven by continued success in the franchise focus strategy, mainly in Australia. The strong first half benefited from favourable market conditions with a more normalised second half result
- Risk income (FICC<sup>1</sup> and Treasury) significantly improved for the full year, and September 12 half year from strong risk management and trading activity on the backdrop of ongoing external market uncertainty and gains in the liquidity portfolio

47 (1) Fixed Income, Currencies & Commodities



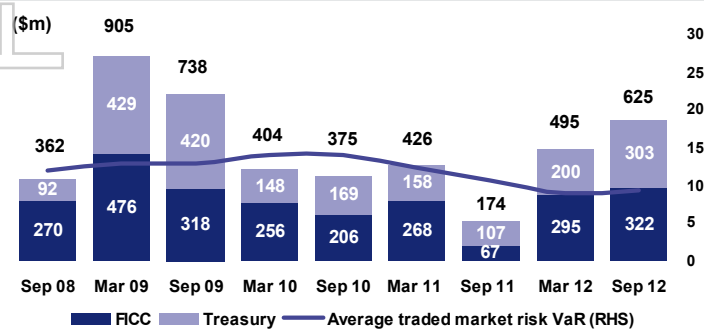
# Wholesale Banking: Income

## Customer income



- Customer income has reduced in the September 2012 half post strong market conditions in the March 2012 half
- Risk income (FICC and Treasury) increased mainly due to strong risk management and trading activity against the backdrop of continued market uncertainty. Treasury income improved primarily through gains in the liquidity portfolio

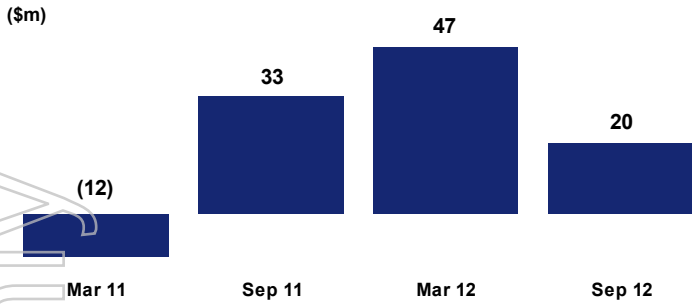
## Risk income





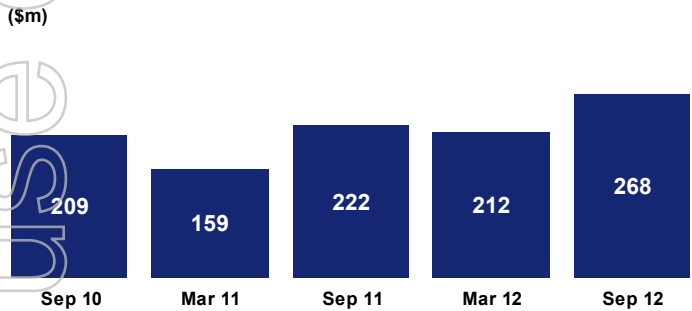
# Wholesale Banking: Asset quality

## B&DD charge

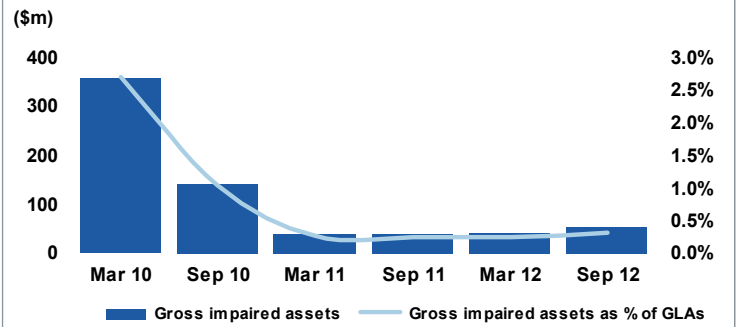


- Improved credit quality resulting in lower B&DD charge
- Portfolio asset quality stable with over 90% investment grade equivalent
- Gross impaired assets were broadly stable on September 2011 and March 2012

## Collective provisions



## Gross impaired assets ratio



 National Australia Bank

## Additional Information

Business Banking

Personal Banking

Wholesale Banking

**NAB Wealth**

NZ Banking

UK Banking

Great Western Bank

Specialised Group Assets

Asset Quality

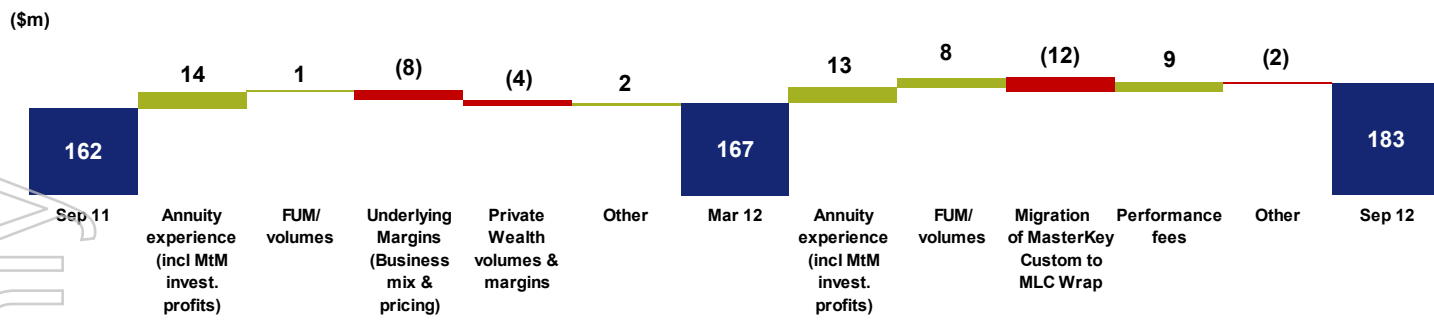
Capital and Funding

Other

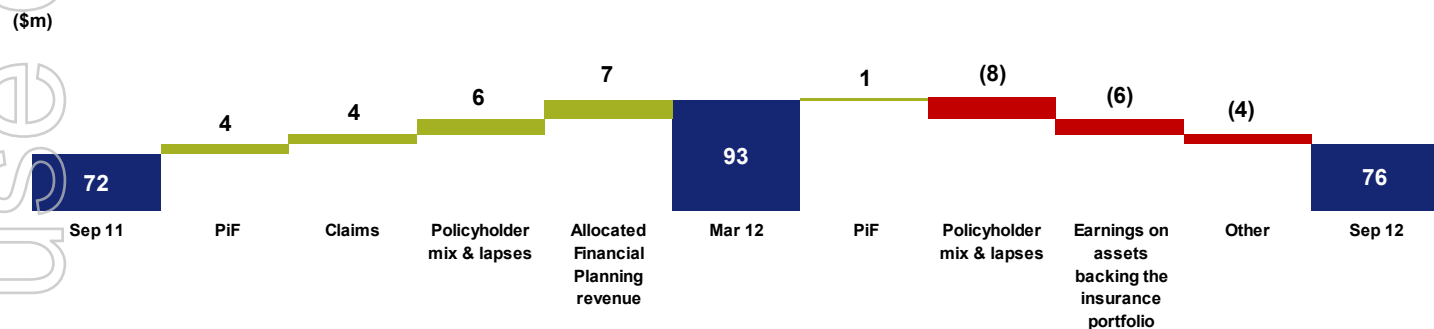
Economic Outlook

# NAB Wealth: Cash earnings

## Investments cash earnings inclusive of Private Wealth

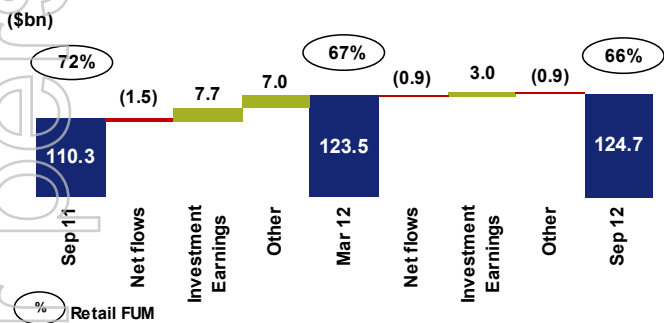


## Insurance cash earnings

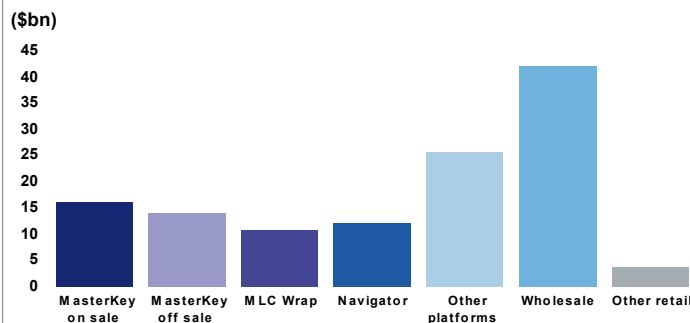


# NAB Wealth: FUM

## Movement in FUM<sup>1</sup>



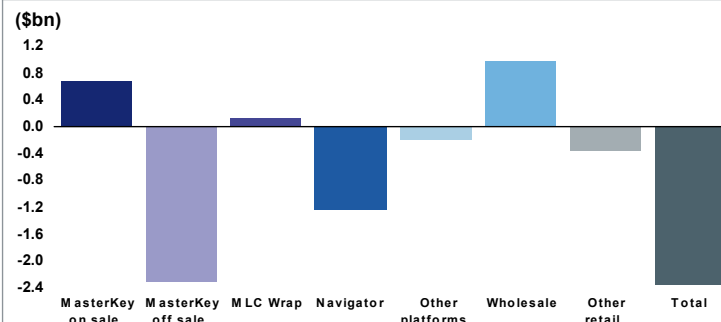
## FUM by product group (Sep 12)



## Net Funds Flow vs FUM by product group

Product group	FY12 NFF (\$m)	NFF as % of Opening FUM
MasterKey on sale	662	5%
MasterKey off sale	(2,316)	(15%)
MLC Wrap	123	1%
Navigator	(1,236)	(10%)
Other Platforms	(201)	(1%)
Wholesale	986	3%
Other Retail	(369)	(9%)
<b>Total</b>	<b>(2,351)</b>	<b>(2%)</b>

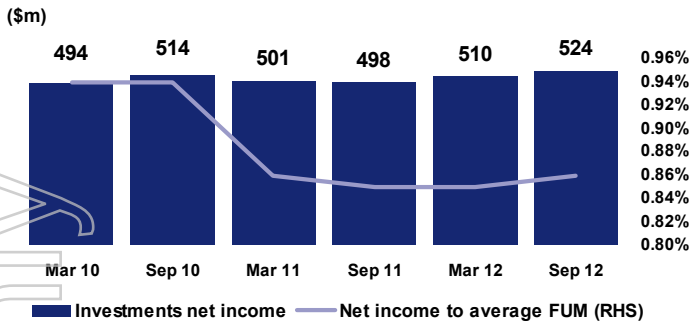
## FY12 Net Funds Flow by product group



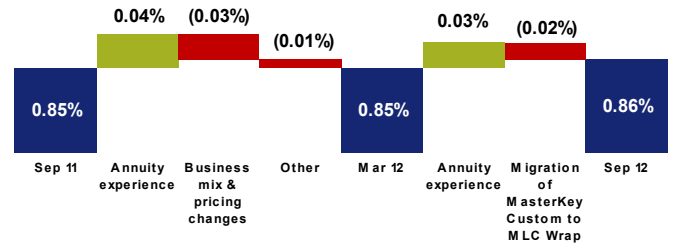
(1) FUM based on a proportional ownership basis

# NAB Wealth: Investments margin

## Investments net income to average FUM

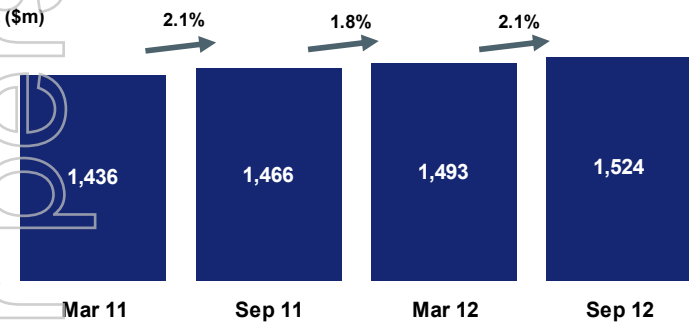


## Movement in total investments margin

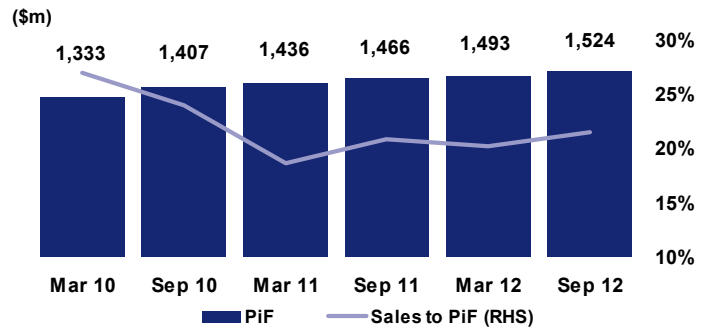


# NAB Wealth: Insurance

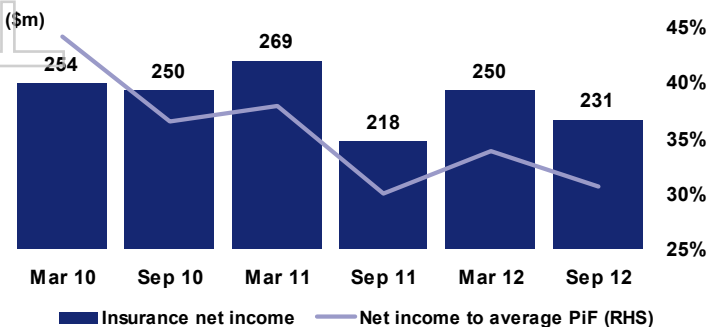
## Premiums inforce



## PiF and Insurance sales as % of PiF

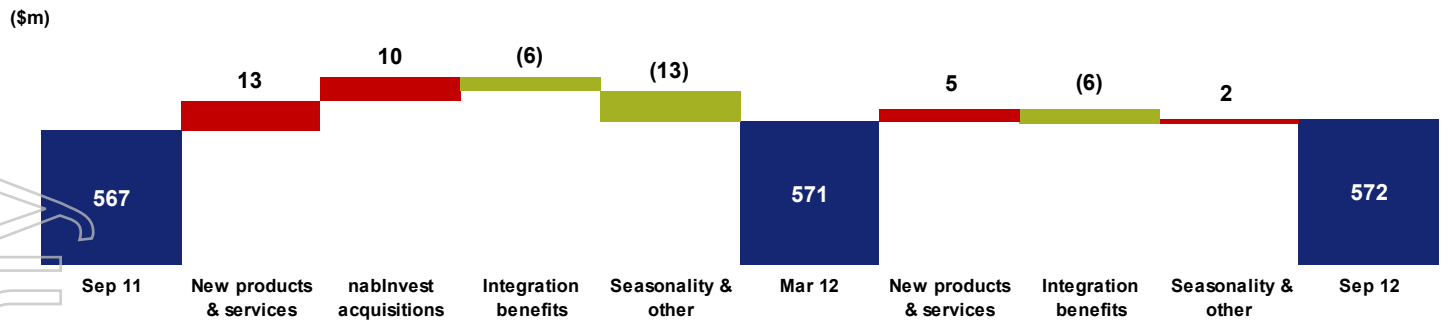


## Insurance net income to average PiF

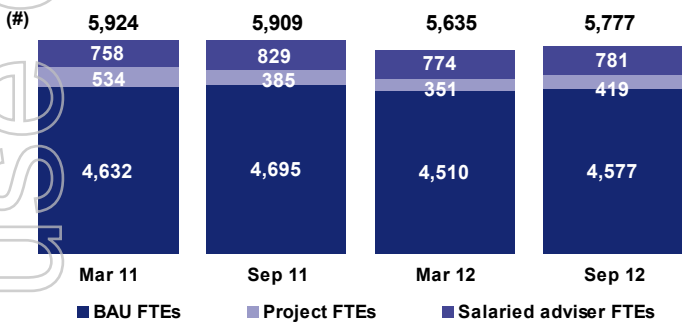


# NAB Wealth: Operating Expenses

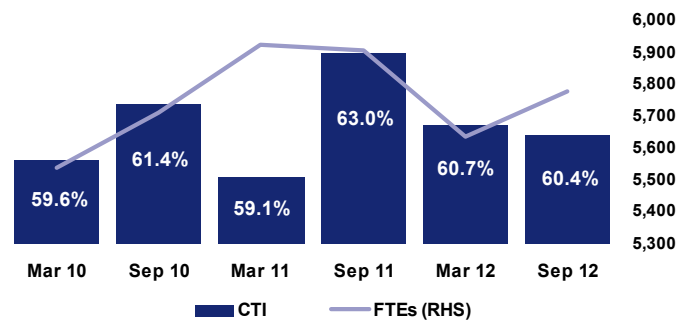
## Movements in operating expenses



## Movements in FTEs

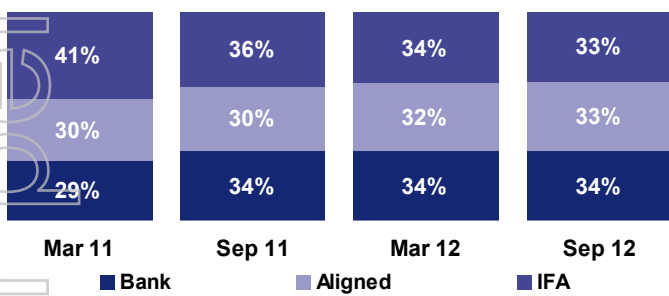


## CTI trends and FTE

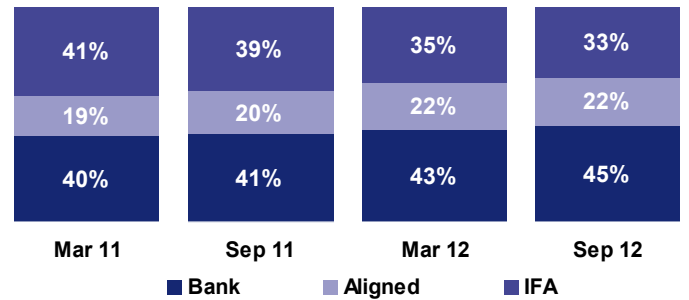


# NAB Wealth: Channel and adviser growth

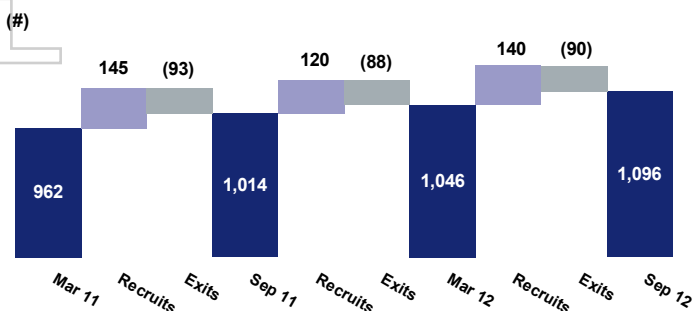
## Investment sales by channel



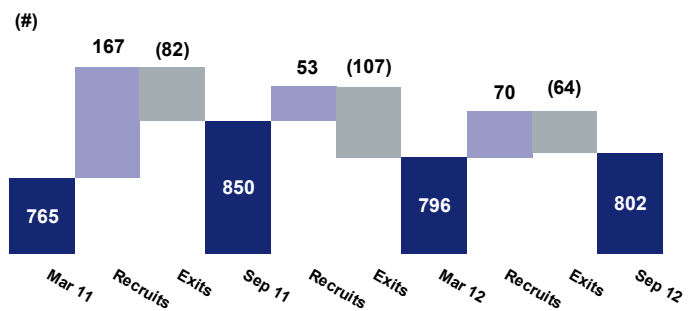
## Insurance sales by channel



## Wealth aligned adviser movement analysis



## Wealth salaried adviser movement analysis



# NAB Wealth: New products and services

<b>MLC Insurance Flagship product</b>		<ul style="list-style-type: none"> <li>• Better technology – reduced turnaround times</li> <li>• Better Service</li> <li>• More competitive pricing and value</li> </ul>	<b>October 2011</b>
<b>Repricing of Navigator / MLC Wrap</b>	MLC Navigator <b>MLC Wrap</b>	<ul style="list-style-type: none"> <li>• Offering customers more competitive pricing and value</li> </ul>	<b>December 2011</b>
<b>MasterKey Fundamentals product refresh</b>	<b>MLC MasterKey®</b>	<ul style="list-style-type: none"> <li>• More investment options</li> <li>• Improved customer experience</li> </ul>	<b>February 2012</b>
<b>NAB Mortgage Protect product</b>		<ul style="list-style-type: none"> <li>• Affordable Home Loan protection</li> <li>• Simple and easy to understand features</li> </ul>	<b>June 2012</b>
<b>MLC Direct – 3 new advice stores</b>		<ul style="list-style-type: none"> <li>• Customers have greater access to Advice</li> <li>• Enabling customers to engage face to face, online or over the phone</li> </ul>	<b>July/August 2012</b>
<b>Launch of nabtrade</b>		<ul style="list-style-type: none"> <li>• Online trading services</li> <li>• Low brokerage</li> <li>• Extensive research &amp; innovative share trading tools</li> </ul>	<b>September 2012</b>
<b>Launch of new Retirement Solutions product</b>		<ul style="list-style-type: none"> <li>• Investment protection</li> <li>• Access to capital</li> <li>• Access to growth assets</li> </ul>	<b>Quarter 1 2013</b>



 National Australia Bank

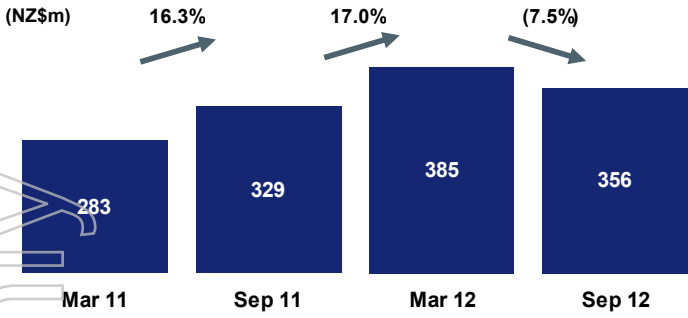
## Additional Information

- Business Banking
- Personal Banking
- Wholesale Banking
- NAB Wealth
- NZ Banking**
- UK Banking
- Great Western Bank
- Specialised Group Assets
- Asset Quality
- Capital and Funding
- Other
- Economic Outlook

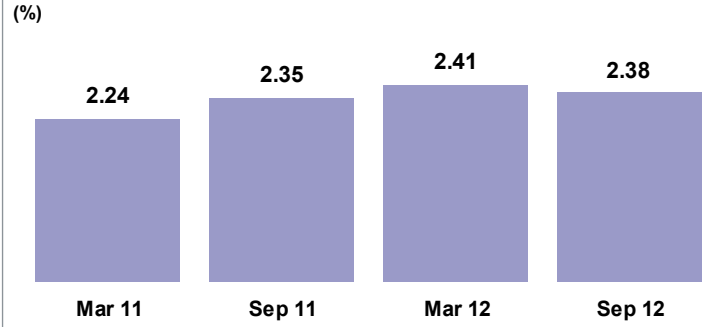
For persons

# New Zealand Banking

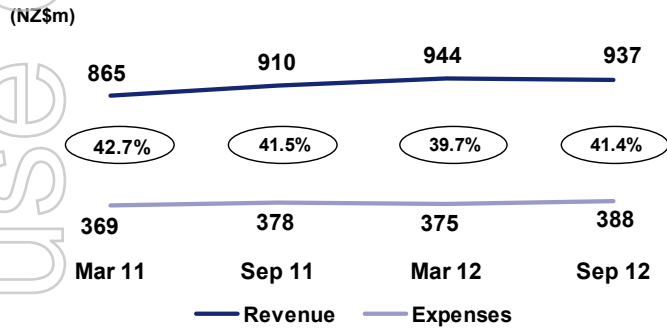
## Cash earnings



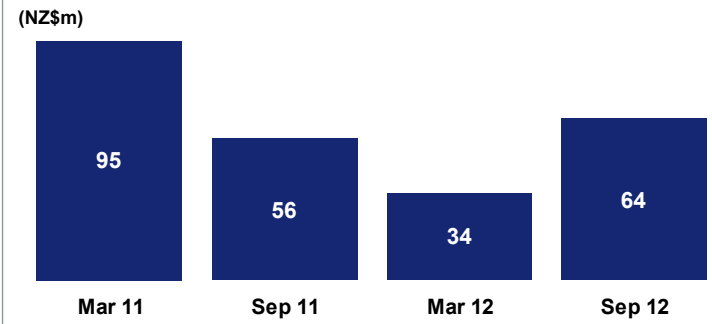
## Net interest margin



## Revenue v expense growth



## B&DD charge

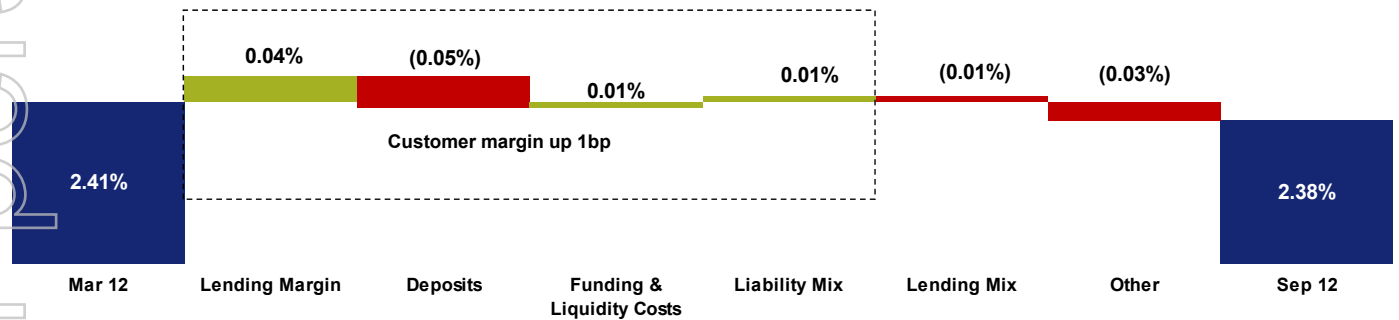


Cost to income ratio

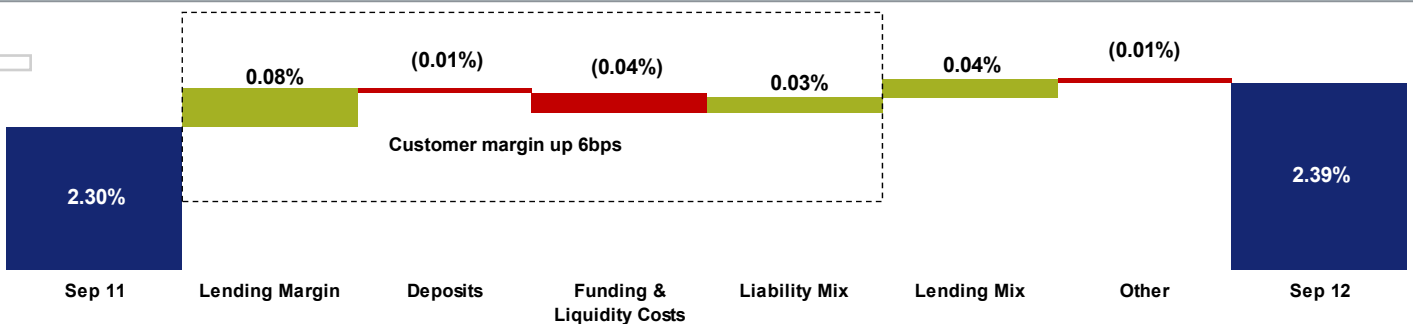


# New Zealand Banking: Net interest margin

## September 12 v March 12

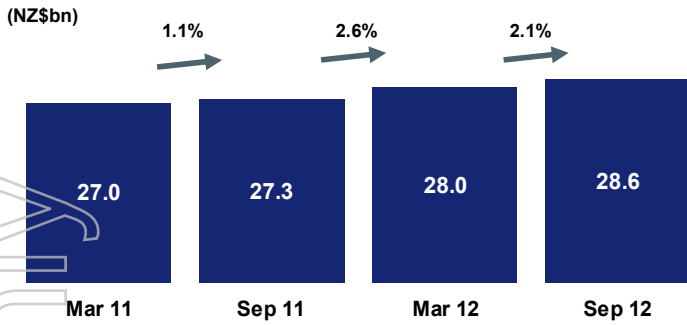


## September 12 v September 11

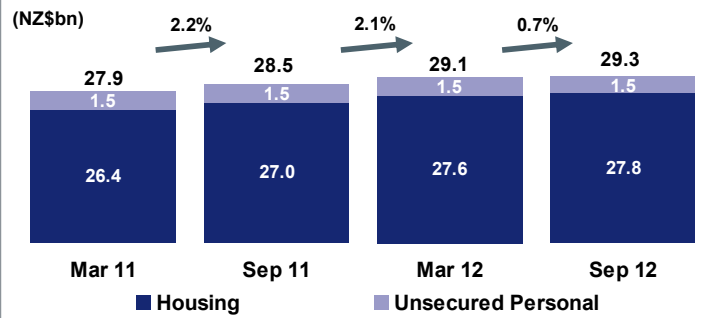


# New Zealand Banking: Volumes and market share

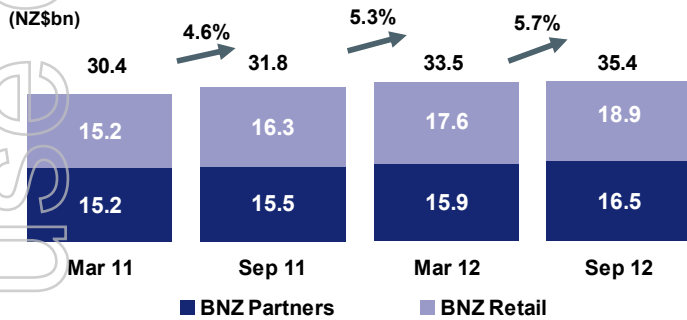
## Business lending



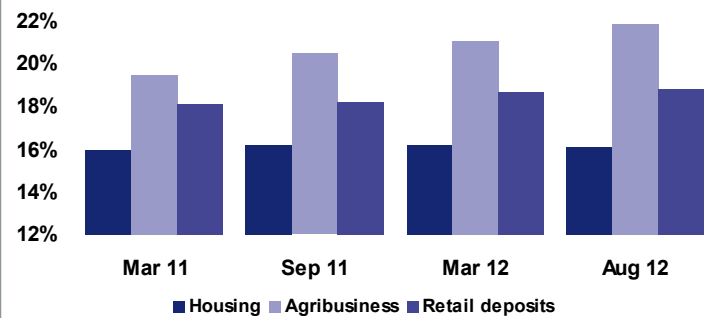
## Retail lending



## Retail deposits



## New Zealand market share<sup>1</sup>



61

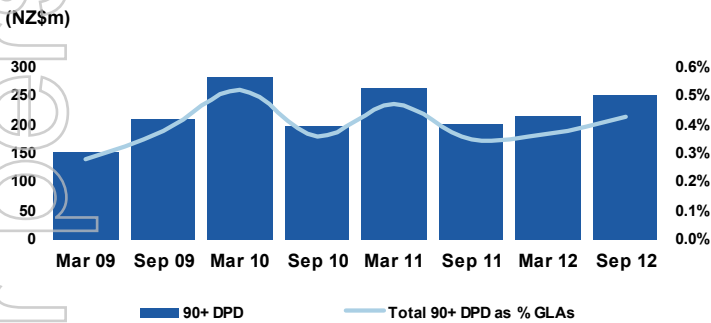
Bank of New Zealand

(1) RBNZ (historical market share rebased with latest revised RBNZ published data)

National Australia Bank

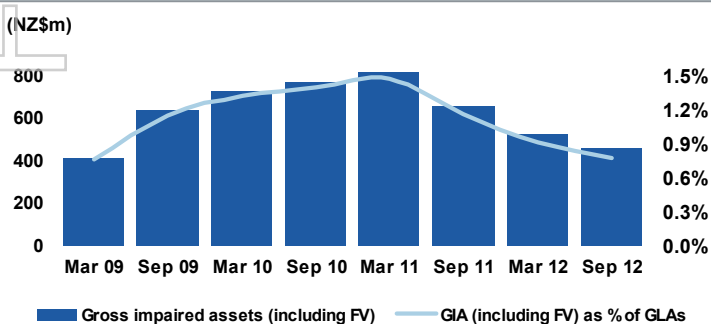
# New Zealand Banking: Asset quality

## Total 90+ DPD as % GLAs

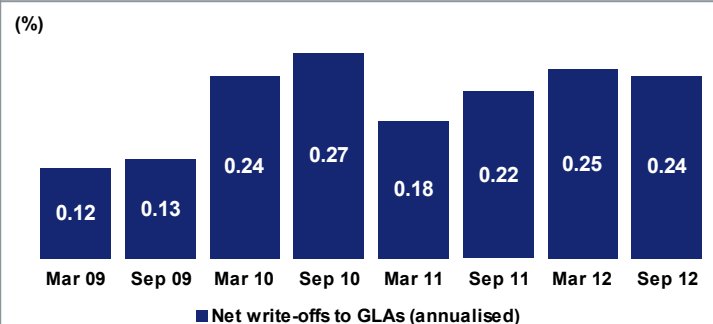


- Gross impaired assets and 90+ DPD in total has decreased from the prior half
- Impairment rates continue to fall across both business and retail exposures
- The increase in 90+ days past due assets is related to business exposures
- Exposures in the commercial property, dairy farming and kiwifruit sectors are the main industry concerns

## Gross impaired assets as % GLAs



## Net write-offs



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Bank of New Zealand

National Australia Bank

# Additional Information

- Business Banking
- Personal Banking
- Wholesale Banking
- NAB Wealth
- NZ Banking

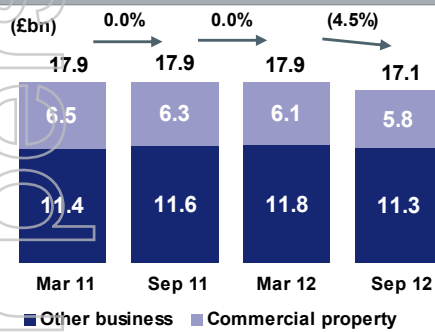
## UK Banking

- Great Western Bank
- Specialised Group Assets
- Asset Quality
- Capital and Funding
- Other
- Economic Outlook

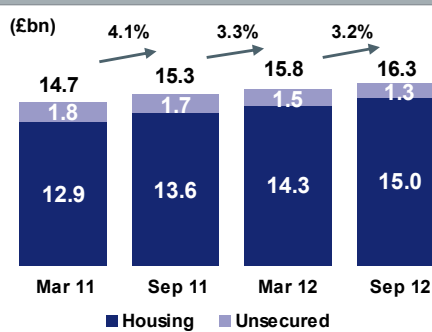


## UK Banking

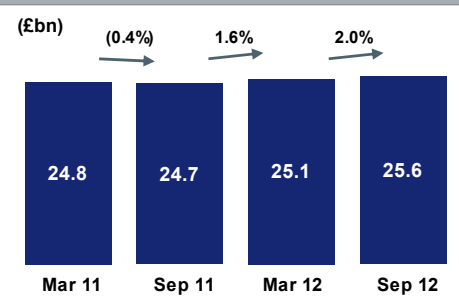
### Business lending



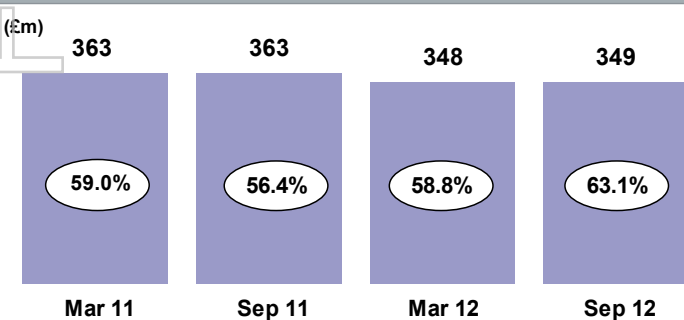
### Personal lending



### Consumer deposits



### Costs



% Cost to Income Ratio

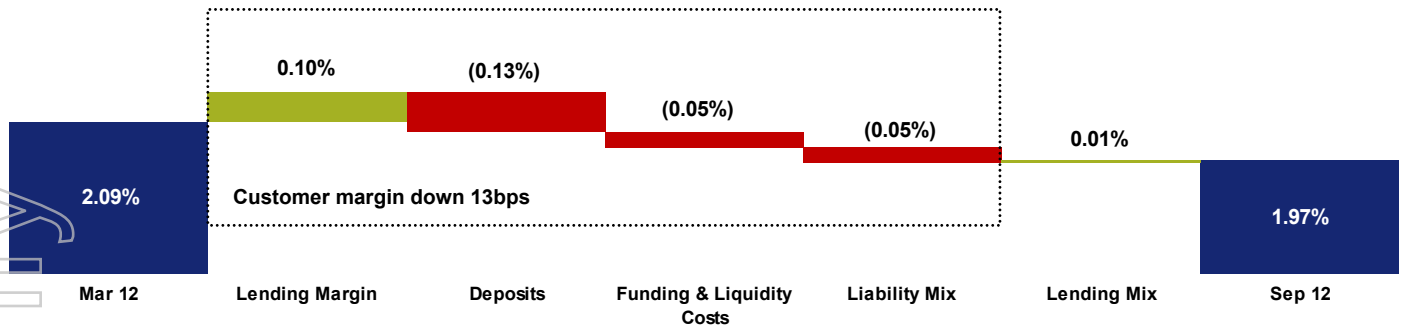
### Net interest margin



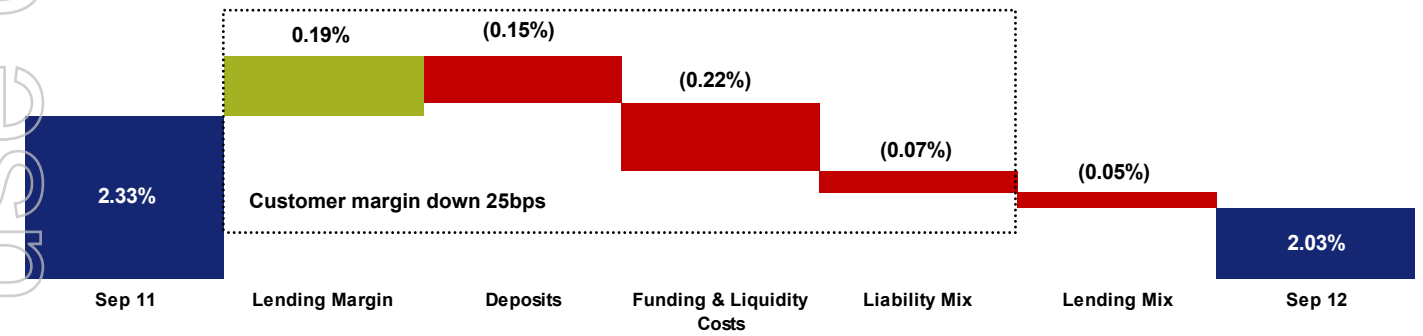


# UK Banking: Net interest margin

## September 12 v March 12



## September 12 v September 11



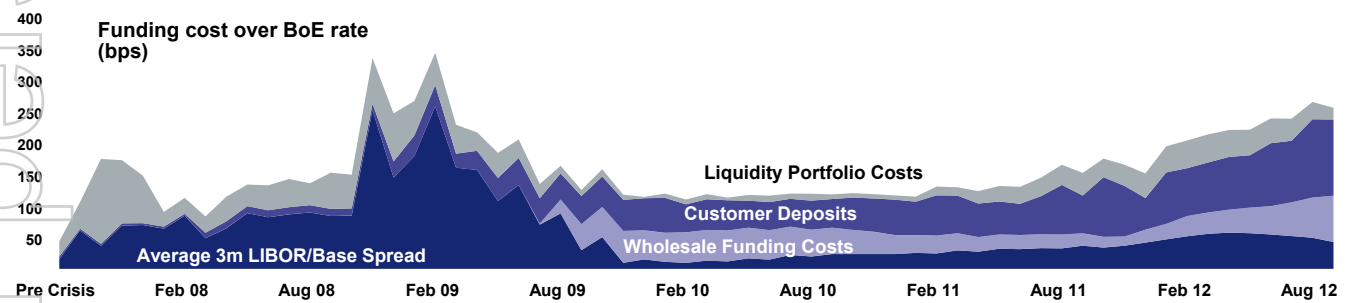
65

Clydesdale Bank Yorkshire Bank

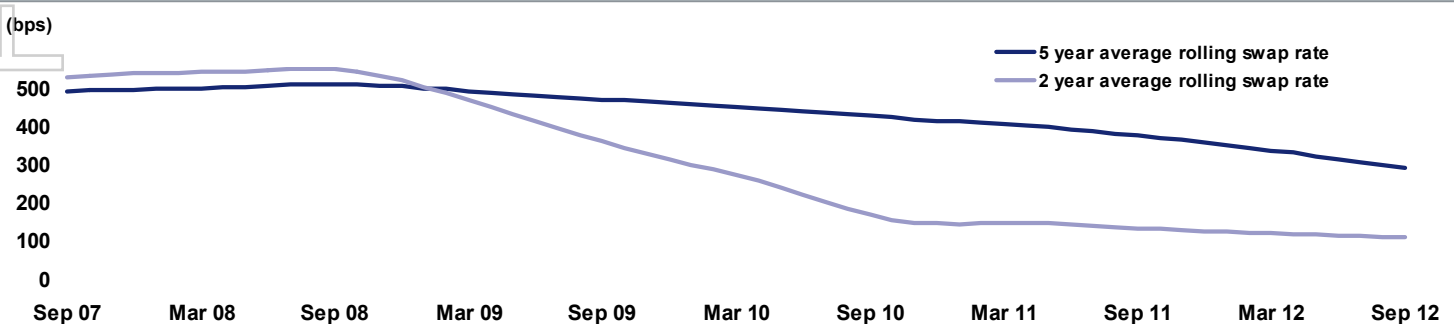
National Australia Bank

# UK Banking: Ratings downgrade increases funding costs

## Clydesdale Bank PLC funding costs since 2007



## Interest rate earned on ~£8bn of free funds\*



66

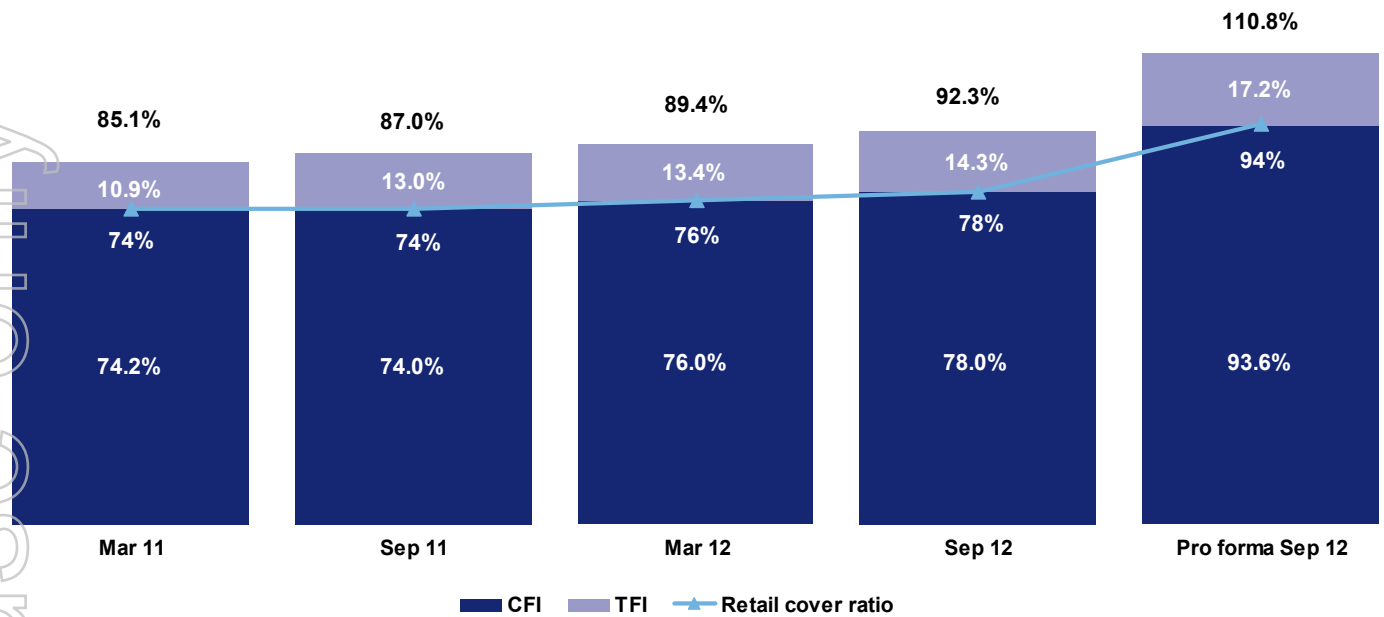
Clydesdale Bank Yorkshire Bank

(\*) Free funds are shareholders equity and non-interest bearing deposits. These flows are hedged over a 2 and 5 year period to reduce volatility from movements in benchmark interest rates

National Australia Bank

# UK Banking: Funding mix

## Clydesdale Bank PLC Stable Funding Index<sup>1</sup>



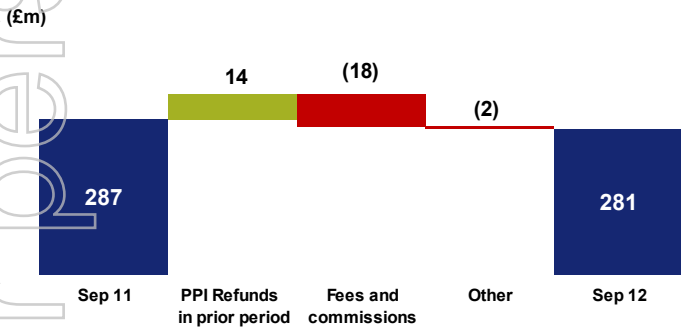
Stable funding index (SFI) based on spot balances

67

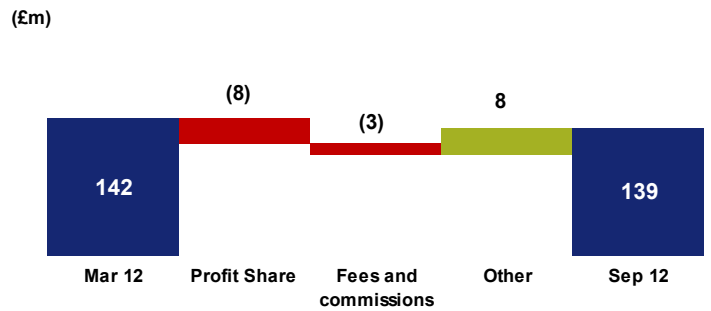
(1) Funding ratios have been restated. Securitised assets and net working capital are no longer adjusted from core assets

# UK Banking: Other operating income and expenses

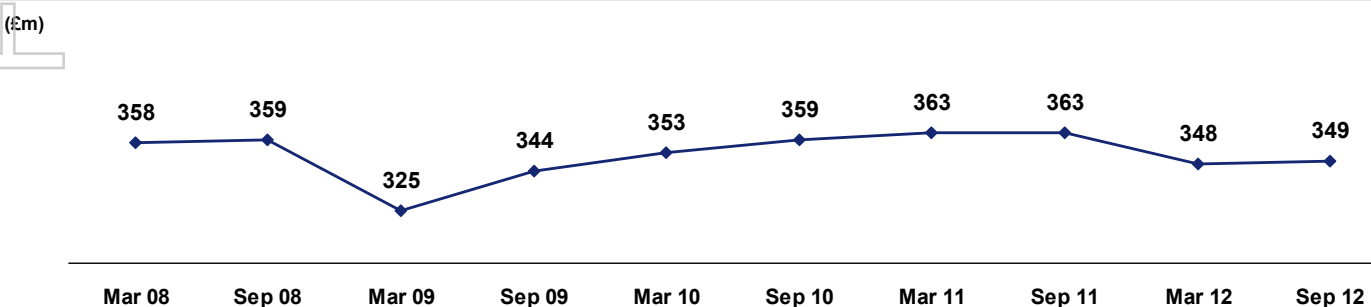
## September 12 v September 11 Other operating income



## September 12 v March 12 Other operating income



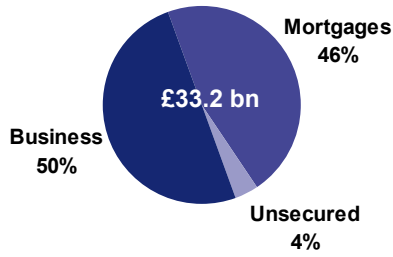
## Operating expenses



68

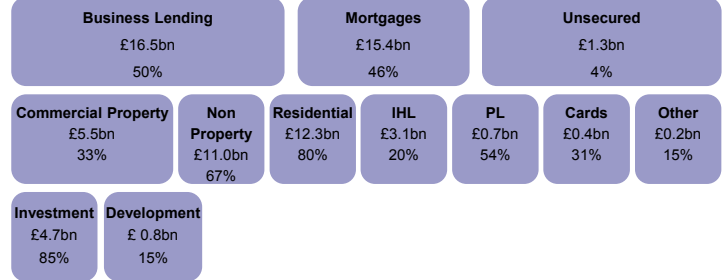
# UK Banking: Portfolio composition

## September 2012 Total portfolio composition

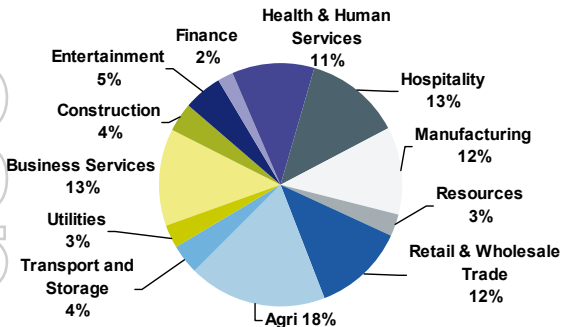


## Gross Loans & Acceptances

£33.2bn  
100%



## September 2012 Business portfolio composition excluding CRE



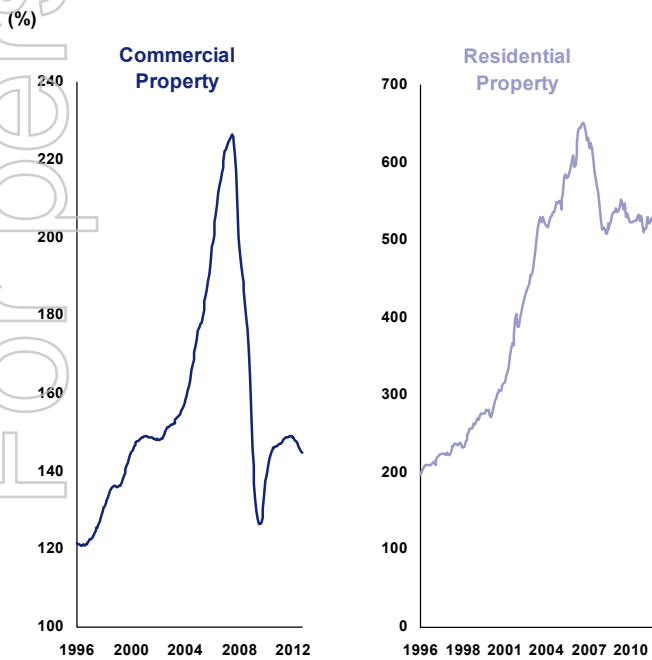
69

Clydesdale Bank Yorkshire Bank

National Australia Bank

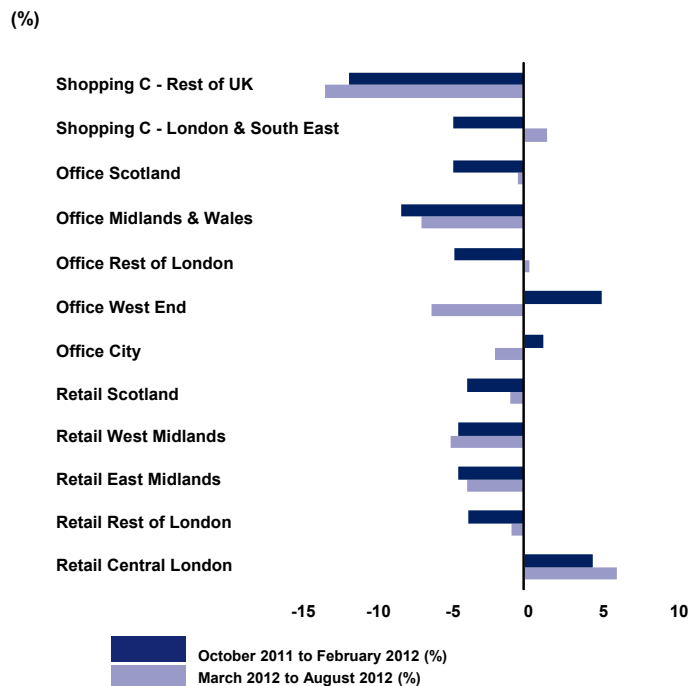
# 'Double dip' in UK real estate values

## UK nominal property values



Source: IPD for commercial property and Lloyds Halifax index for residential property, deflated by core CPI

## UK commercial property capital value



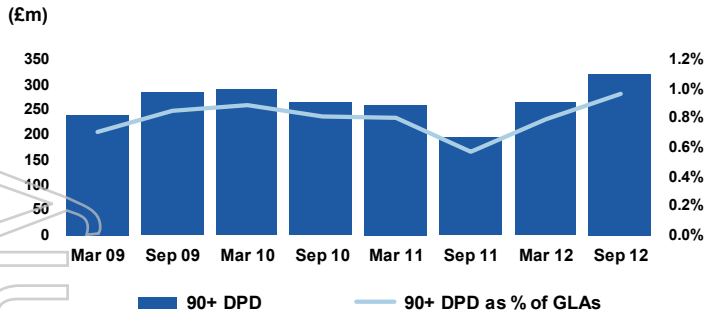
Source: IPD

Clydesdale Bank Yorkshire Bank

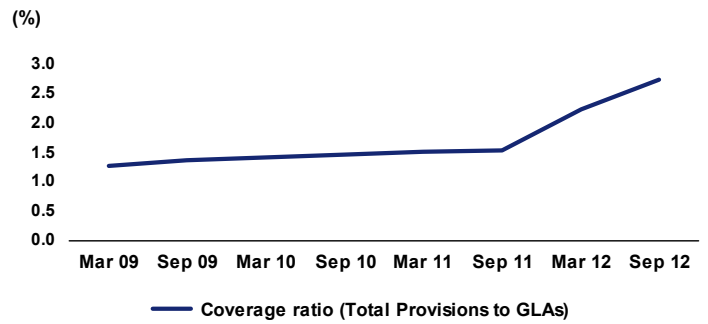
National Australia Bank

# UK Banking: Asset quality

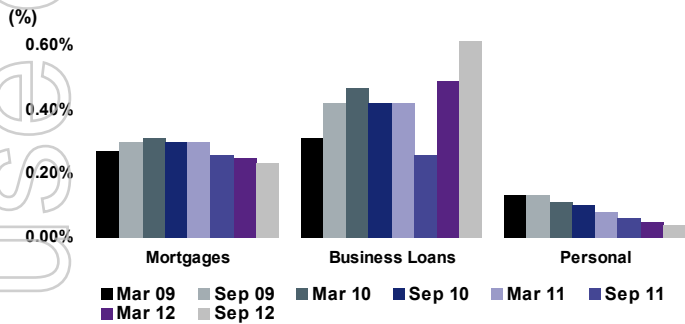
## Total 90+ DPD as a % of GLAs



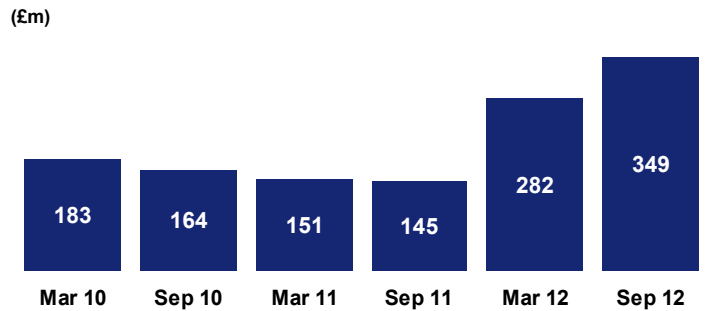
## Coverage ratio



## 90+ DPD as a % of total GLAs by product



## B&DD charge



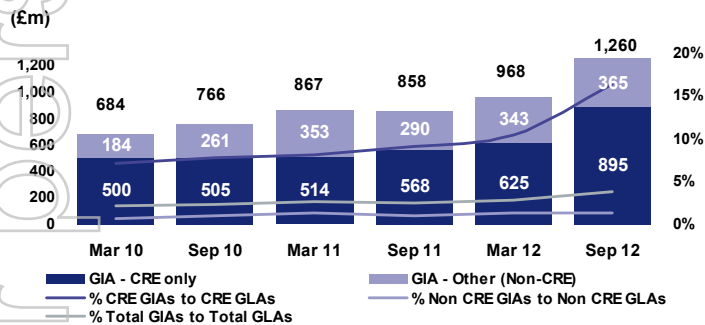
71

Clydesdale Bank Yorkshire Bank

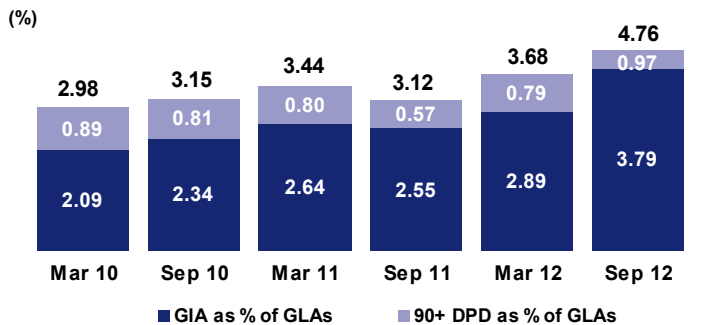
National Australia Bank

# UK Banking: Asset quality

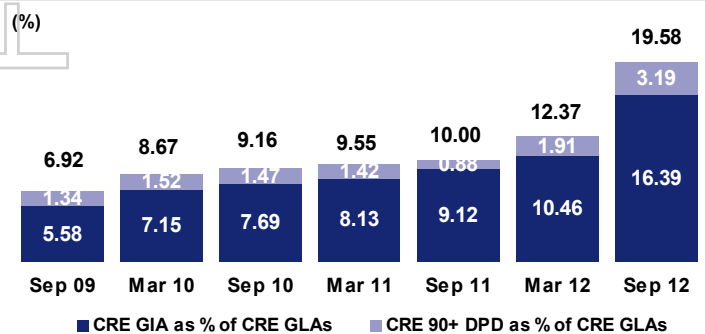
## Gross impaired assets



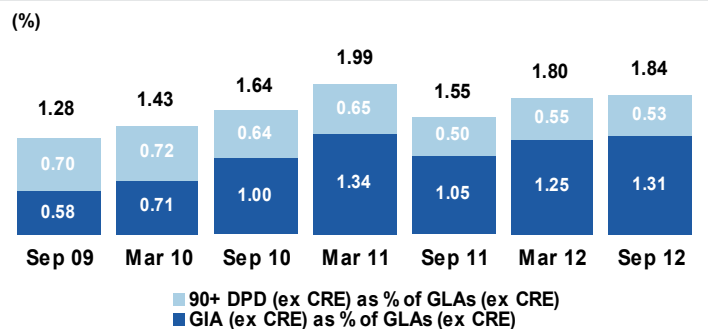
## 90+ DPD and GIAs as a % of GLAs



## UK CRE credit quality



## UK Credit quality excluding CRE



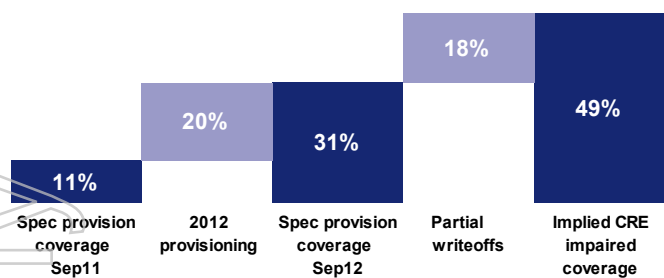
72

Clydesdale Bank Yorkshire Bank

National Australia Bank

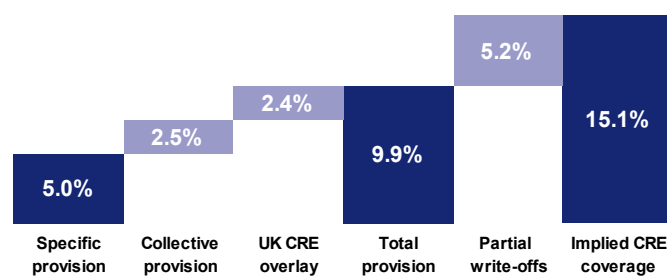
## UK Banking: CRE provisioning increased

### UK CRE impaired loan coverage



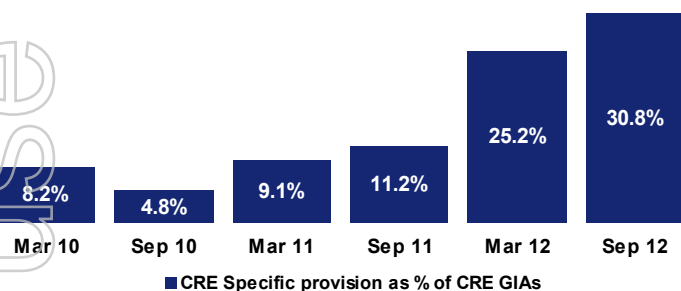
Note: CRE specific provision over CRE impaired assets

### Total UK CRE provision coverage – Sep 12



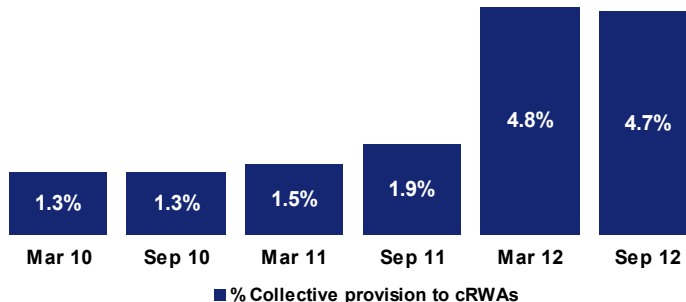
Note: CRE provision to CRE GLAs

### UK CRE Specific provision coverage



■ CRE Specific provision as % of CRE GIAs

### UK CRE Collective provision coverage of cRWAs



■ % Collective provision to cRWAs

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Clydesdale Bank Yorkshire Bank

National Australia Bank

## UK Banking: Pro forma results

	FY12 Reported	CRE transfer portfolio	FY12 Pro forma	2H12 Reported	CRE transfer portfolio	2H12 Pro forma
Cash earnings (£m)	(139)	(287)	148	(114)	(163)	49
Cash RoRWAs (%)	(44bps)	(100bps)	56bps	(74bps)	(112bps)	38bps
CB Tier 1 ratio (%)	9.6%	200bps	11.6%	9.6%	200bps	11.6%
CB SFI (%) <sup>1</sup>	92%	19%	111%	92%	19%	111%
CB Assets (£bn)	44.2	(5.2)	39.0	44.2	(5.2)	39.0
CB funding gap (£bn) <sup>2</sup>	7.3	(5.6)	1.7	7.3	(5.6)	1.7

(1) Funding ratios have been restated. Securitised assets and net working capital are no longer adjusted from core assets

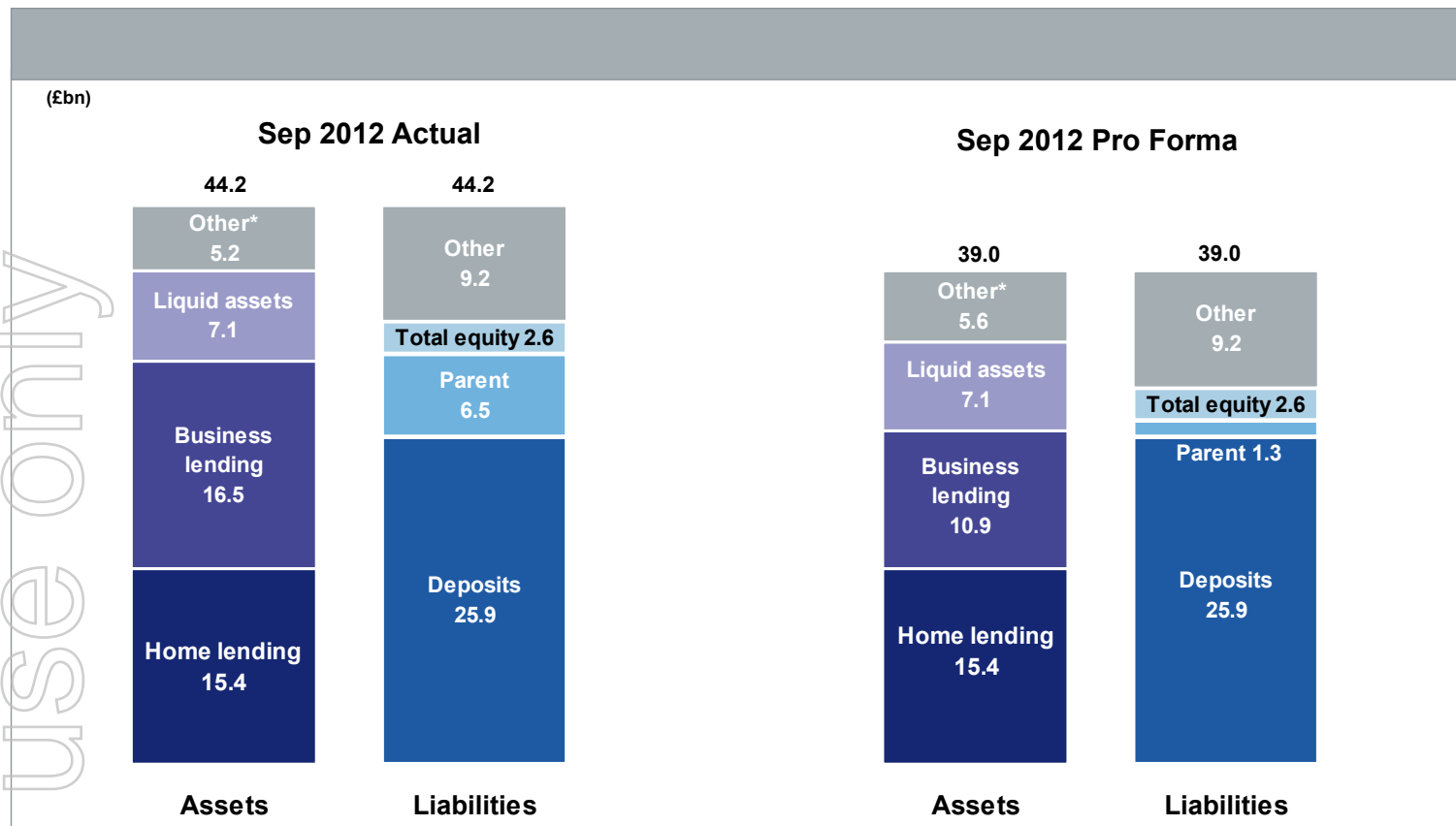
(2) Funding gap represents the difference between gross loans & acceptances and deposits

Clydesdale Bank Yorkshire Bank

National Australia Bank

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## UK Banking: Restructure improves CB balance sheet structure



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Clydesdale Bank Yorkshire Bank

(\*)

Other is net of provision for bad and doubtful debts and includes £1.3bn of unsecured personal lending

National Australia Bank

## UK Banking: Costs and benefits profile

### Total costs and impact on Group capital ratio (pre tax)

£m	Total	1H12	2H12	Group capital		
				£m	\$m	bps
Redundancy	86	-	86	(86)	(131)	(4)
Lease break costs	35	-	32	(35)	(53)	(1)
Software write-off	36	36	-	-	-	-
Other	38	-	21	(38)	(58)	(2)
Restructuring	195	36	139	(159)	(242)	(7)
Goodwill write-off	141	141	-	-	-	-
PPI	120	120	-	(120)	(182)	(5)
<b>Total</b>	<b>456</b>	<b>297</b>	<b>139</b>	<b>(279)</b>	<b>(424)</b>	<b>(12)</b>

- Redundancy, lease break and other costs relating to closure and restructuring of current operations have been booked in 2H12
- Planned reduction of over 1,400 FTEs from September 2011 includes restructuring, other productivity initiatives and natural attrition
- Lease break costs relate to closure of 29 FSCs and six back office sites, and relocation of 9 FSCs
- Other is primarily program management, legal and other costs associated with the restructure

Clydesdale Bank Yorkshire Bank

National Australia Bank

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## UK Banking: Payment Protection Insurance (PPI)

- CB PLC increased provision by £120m in 1H12
- £61m utilised since 31 March 2012 leaving provisions of £108 million at 30 September 2012
- Complaints experience accelerated in the 1<sup>st</sup> half of FY12 and have now stabilised
- Uncertainty remains

CB PLC complaints experience by month



As at June 2012	Cumulative charge (£m)	Redress paid (£m)	Utilisation (%)
Barclays Bank <sup>1</sup>	1,300	894	68.8%
Lloyds Banking Group	4,275	2,955	69.1%
RBS	1,325	700	52.8%
Clydesdale Bank <sup>2</sup>	256	116	45.3%

Source: Interim accounts 2012

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Clydesdale Bank Yorkshire Bank

(1) Barclays announced it had provided another £700m for PPI redress on 18 October 2012  
 (2) Utilisation at 30 September 2012 was 58%

National Australia Bank

## UK Banking: Pension plan and interest rate hedging review

Defined benefits pension plan reformed during the March half

- Pension IAS 19 deficit of £301m as at Sep 2012, £85m Mar 2012, Sep 2011 £180m
- Future P&L impact subject to market conditions, particularly equity markets, bond yields and inflation

Provisions of £48m raised for other customer redress

- Includes claims relating to interest rate products
- Scope of FSA review of interest rate hedging products continues to be refined
- Largely relates to more complicated interest rate hedging products and excludes products sold to sophisticated customers

## Additional Information

Business Banking  
 Personal Banking  
 Wholesale Banking  
 NAB Wealth  
 NZ Banking  
 UK Banking

## Great Western Bank

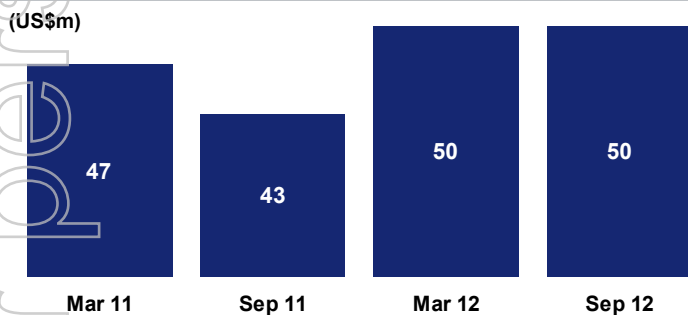
Specialised Group Assets  
 Asset Quality  
 Capital and Funding  
 Other  
 Economic Outlook

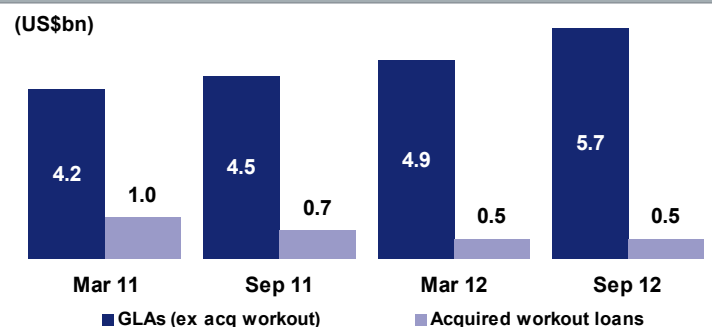
 National Australia Bank

## Great Western Bank

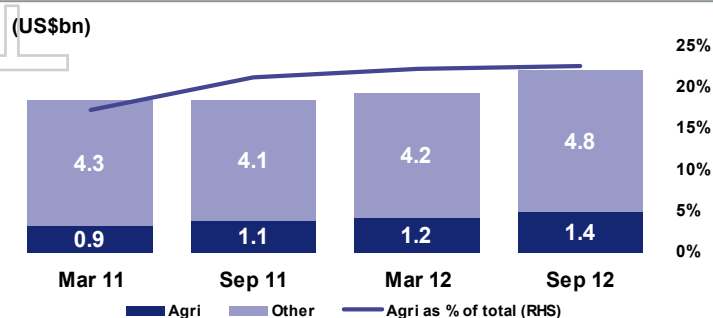
### Cash earnings



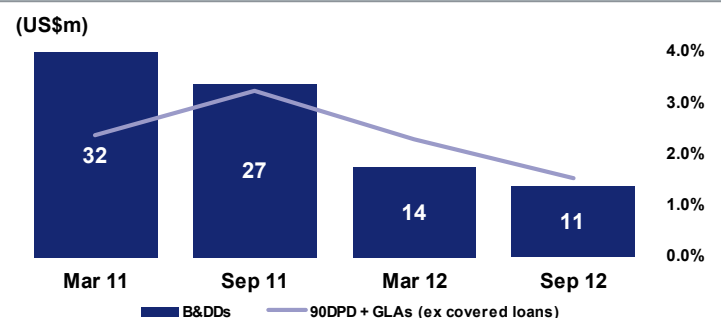
### Gross loans & acceptances<sup>1</sup>



### Loan portfolio composition



### B&DDs and asset quality metrics





## Additional Information

Business Banking  
 Personal Banking  
 Wholesale Banking  
 NAB Wealth  
 NZ Banking  
 UK Banking  
 Great Western Bank  
**Specialised Group Assets**  
 Asset Quality  
 Capital and Funding  
 Other  
 Economic Outlook



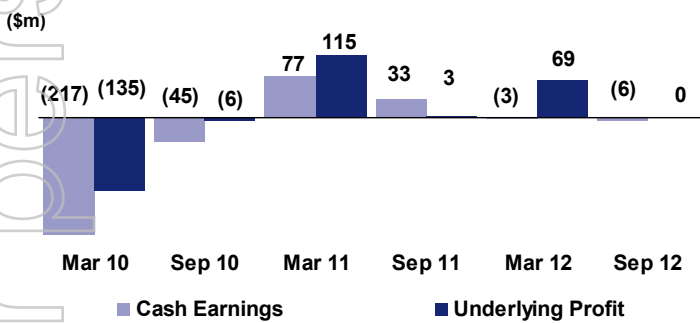




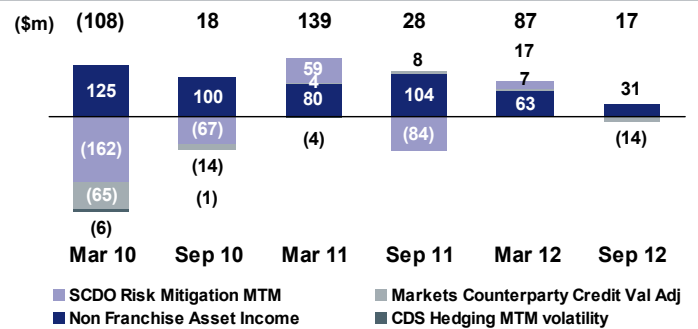

 National Australia Bank

## Specialised Group Assets

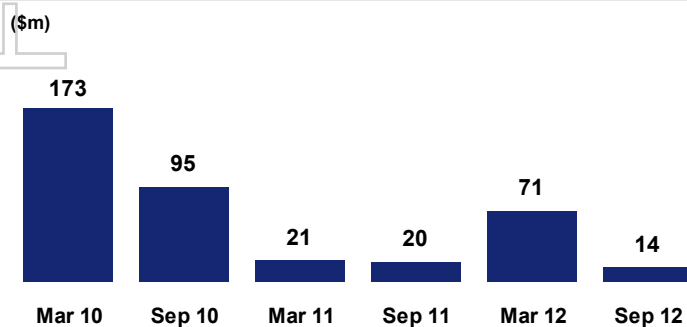
### Cash earnings & underlying profit



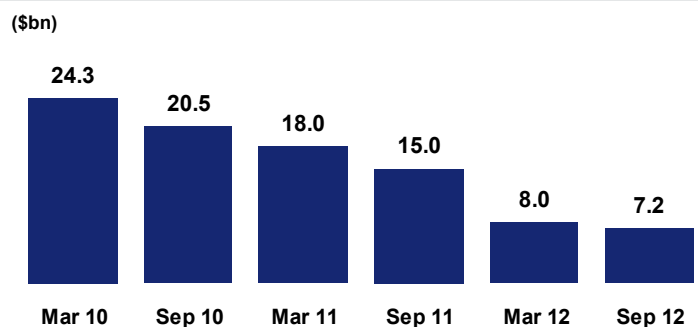
### Portfolio income<sup>1</sup>



### B&DD charge

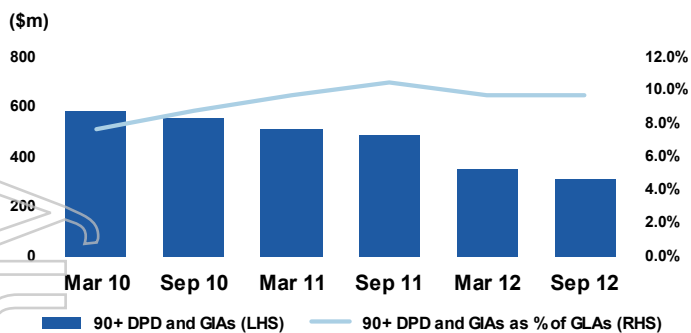


### RWAs

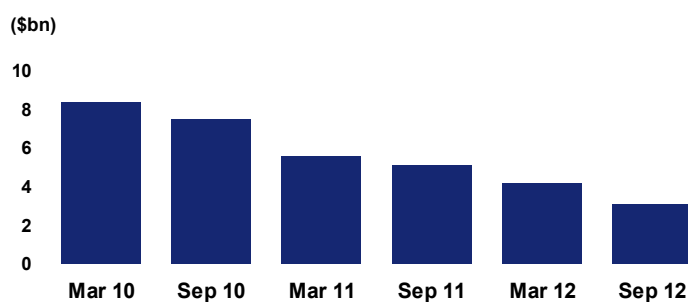


# Specialised Group Assets: Asset quality

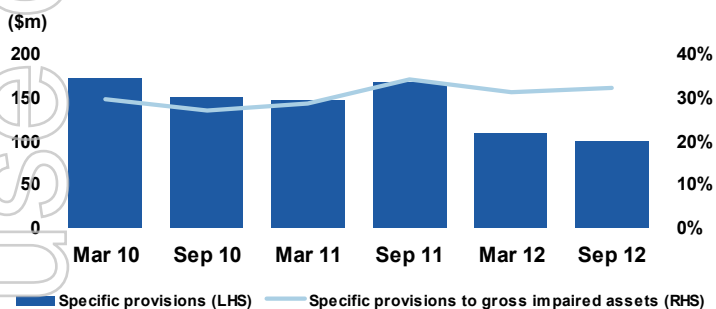
## 90+ DPD and GIAs as % of GLAs



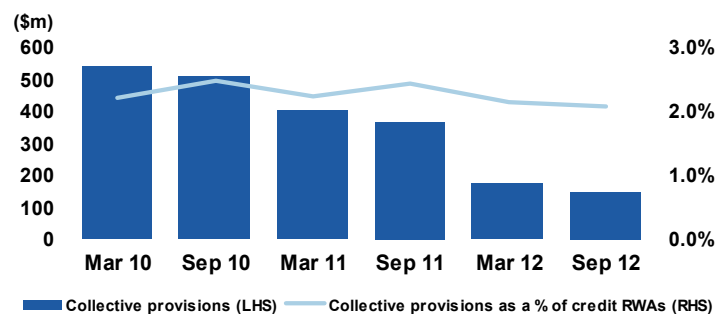
## Gross loans & acceptances (average)



## Specific provisions to gross impaired assets



## Collective provisions<sup>1</sup> as a % of credit RWAs



83 (1) Prior periods include \$160m overlay. Fully utilised at March 2012.



# SGA Conduit Portfolio Summary<sup>1</sup>

Movements between March 2012 and September 2012

### Mar 2012

Corporates (SCDOs) A\$0.5bn
Credit Wrapped ABS A\$0.5bn
CMBS A\$0.5bn
Infrastructure Bonds A\$0.2bn
Credit Wrapped Bonds A\$0.5bn
Leveraged Loans A\$1.3bn
Mortgages A\$0.2bn

**A\$3.7bn<sup>2</sup>**

(A\$0.4bn)

Decrease due to repayments, maturities and terminations

### Sep 2012

Corporates (SCDOs) A\$0.3bn
Credit Wrapped ABS A\$0.5bn
CMBS A\$0.4bn
Infrastructure Bonds A\$0.2bn
Credit Wrapped Bonds A\$0.5bn
Leveraged Loans A\$1.2bn
Mortgages A\$0.2bn

**A\$3.3bn**

(1) Includes Group's exposures (drawn and available to be drawn) initially funded by NAB sponsored and third party sponsored asset backed commercial paper conduits and SPE purchased assets

(2) Specialised Group Assets has removed the economic risk associated with the six sold protection SCDO derivative exposures



# Structured Asset Management

## Credit Wrapped ABS – \$0.5bn

	Portfolio 1	Portfolio 2
Current NAB Exposure	\$293m (US\$306m)	\$190m (US\$199m)
Average Portfolio Rating (excludes Portfolio Policy, includes Bond Level Policies)	B3 / B-	B3 / CCC+
Portfolio Guarantor	MBIA (B3 / B)	AMBAC (NR / NR) – Policy terminated Oct 2011
% of Underlying Asset with Wrap	43.9%	30.1%
<b>Asset Breakdown</b>		
Residential Mortgage Backed Security <sup>1</sup>	32.6%	45.7%
Commercial Mortgage Backed Security	0.0%	4.8%
Insurance	16.1%	3.9%
Student Loan	7.4%	34.4%
Collateralised Debt Obligation	28.4%	0.0%
Transportation & Other ABS	15.5%	11.2%

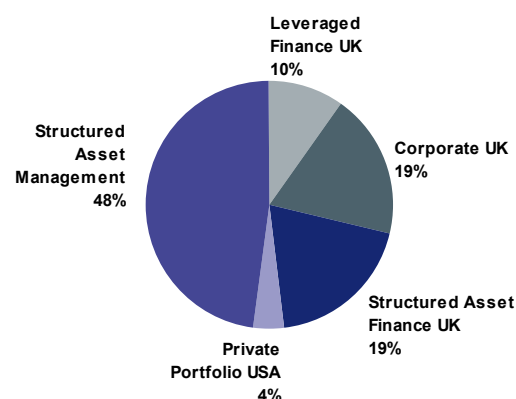
- NAB owns a pro-rata share of two RMBS/ABS portfolios with concentrations to US residential mortgage-backed securities
- At issue, all bonds in the portfolios were rated AAA/Aaa by S&P and Moody's either directly or as the result of an insurance policy
- In addition to the bond-level policies covering a portion of each portfolio, there is a portfolio-wide policy from MBIA on Portfolio 1 that serves as insurance against loss. The AMBAC portfolio-wide policy was terminated by mutual agreement in October 2011
- The provision held against the portfolios has not materially changed since FY 2010, other than the transition of \$10m from provision to write-off
- In 2012, following a change in treatment, the RWA for the Credit Wrapped ABS has been reduced by \$3.3bn, with a corresponding increase in capital deductions of \$245m



85 (1) Note that this includes Subprime, Prime, Alternative A, 2nd Lien and HELOC RMBS

## Portfolio Composition as at 30 September 2012

	Total Commitments (A\$bn)	Total Provisions (specific & collective) (A\$m)	Average Contractual Tenor (years)	RWAs (A\$bn)	Number of Clients	Close Review Commitments (A\$bn)
Leveraged Finance UK	0.7	60	2.7	1.2	26	0.3
Corporate UK <sup>1</sup>	1.3	118	2.3	2.1	29	0.8
Structured Asset Finance UK	1.3	15	14.5	1.0	14	0.0
Private Portfolio USA	0.3	4	12.9	0.4	15	0.0
<b>Total Loans &amp; Advances</b>	<b>3.6</b>	<b>197</b>	<b>n/a</b>	<b>4.7</b>	<b>84</b>	<b>1.1</b>
Structured Asset Management <sup>2</sup>	3.3	80	11.0	2.5	25	0.7
<b>Total</b>	<b>6.9</b>	<b>277</b>	<b>9.3</b>	<b>7.2</b>	<b>109</b>	<b>1.8</b>



(1) Of which:

Property UK	0.3	65	0.4	0.7	13	0.3
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86 (2) Held To Maturity Assets



# Portfolio Composition - Credit profile

- 67% of commitments relate to Investment Grade equivalent clients or transactions

(A\$m)	Investment Grade AAA/BBB-	Non-Investment Grade BB+/BB	Non-Investment Grade BB-/B+	Non-Investment Grade B+/CCC-	Default or restructure D
Leveraged Finance UK	0	171	276	160	82
Corporate UK	430	26	393	220	236
Structured Asset Finance UK	947	52	247	0	25
Private Lending USA	295	0	12	12	13
<b>Total Loans &amp; Advances</b>	<b>1,672</b>	<b>249</b>	<b>928</b>	<b>392</b>	<b>356</b>
<b>Structured Asset Management<sup>1</sup></b>	<b>2,911</b>	<b>82</b>	<b>0</b>	<b>40</b>	<b>269</b>
<b>Total Commitments</b>	<b>4,583</b>	<b>331</b>	<b>928</b>	<b>432</b>	<b>625</b>
<b>Total RWAs</b>	<b>3,206</b>	<b>583</b>	<b>1,869</b>	<b>1,128</b>	<b>394</b>
<b>Total Provisions</b>	<b>2</b>	<b>1</b>	<b>30</b>	<b>39</b>	<b>205</b>
<b>Number of Accounts</b>	<b>47</b>	<b>8</b>	<b>22</b>	<b>14</b>	<b>18</b>
<b>Number of Close Review Accounts</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>11</b>	<b>18</b>

(1) Held to Maturity Assets  
All data as at 30 September 2012  
Investment grades equivalent of external ratings

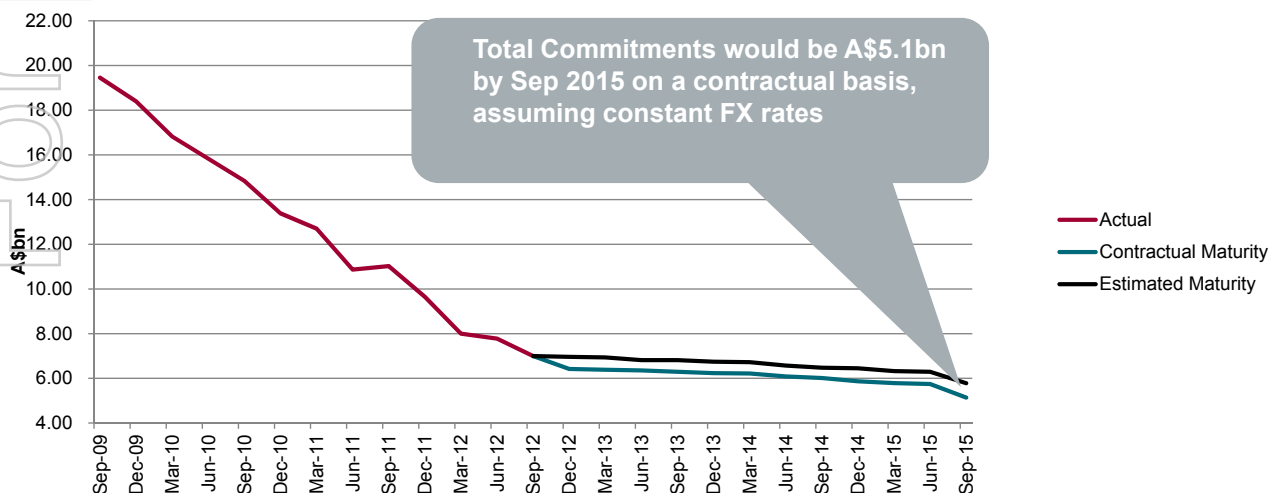


## Portfolio Composition

### Contractual Maturity Profile - Commitments

- Actual commitments have decreased from September 2009 largely through repayments and decreased commitments as well as the weakening of both USD and GBP against the AUD
- The contractual maturity profile differs to the estimated maturity profile due to potential refinancing risks for a number of clients. The weighted average contracted maturity of the portfolio is 9.3 years

### SGA committed lending 6 year maturity profile

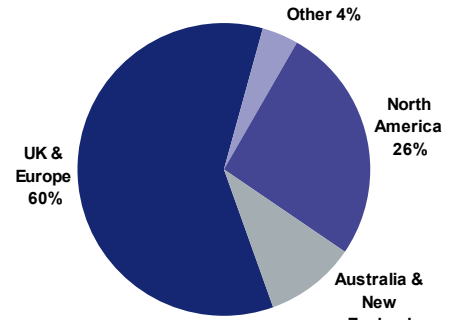


# SGA Portfolio Composition

## Commitments by Geography of Risk

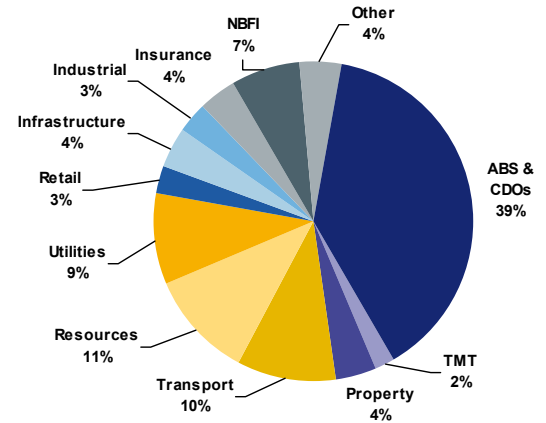
	Commitments (\$bn)	RWAs (\$bn)
UK & Europe	4.1	4.8
North America	1.8	1.4
Australia & New Zealand	0.7	0.7
Other	0.3	0.3
<b>Total</b>	<b>6.9</b>	<b>7.2</b>

## Commitments



## Commitments by Sector of Risk

	Commitments (\$bn)	RWAs (\$bn)	Collective Provisions (\$m)	Specific Provisions <sup>1</sup> (\$m)
NBFI	0.5	0.3	0.3	23.3
Insurance	0.3	0.5	4.8	0.0
Industrial	0.2	0.4	15.9	13.0
Infrastructure	0.3	0.2	2.2	0.0
Retail	0.2	0.4	15.7	0.0
Utilities	0.6	0.5	0.0	0.0
Resources	0.8	0.5	2.0	0.0
Transport	0.7	0.8	22.9	0.0
Property	0.3	0.8	5.5	61.6
TMT	0.1	0.4	26.7	0.0
ABS & CDOs	2.7	2.0	6.4	72.0
Other	0.2	0.4	2.5	2.2
<b>Total</b>	<b>6.9</b>	<b>7.2</b>	<b>104.9</b>	<b>172.1</b>



89 (1) Provisions for ABS & CDOs is on Held to Maturity assets. All other specific provisions are on loans and advances

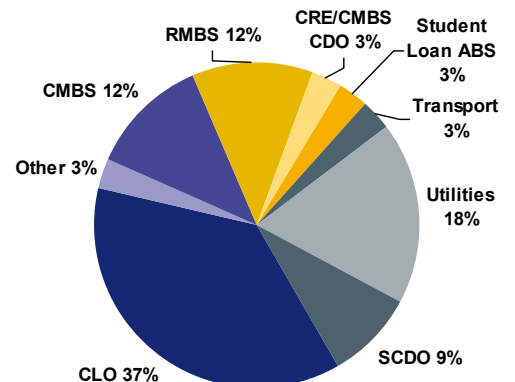
# Structured Asset Management

Description: CDOs, residential mortgage backed securities ('RMBS'), commercial mortgage backed securities ('CMBS') and other asset backed securities.

No. of Transactions	25	Commitments	\$3.3bn	Credit RWA	\$2.5bn
		Drawn Balance	\$3.3bn		
No. of Close Review Clients	3	Close Review Commitments	\$700m	Avg* contractual maturity	11.0 yrs
				*weighted average by commitment	

## Sector Analysis

	Commitments (\$bn)	Collective Provisioning <sup>1</sup> (\$m)	Specific Provisioning <sup>2</sup> (\$m)
SCDO	0.3	-	-
CLO	1.2	-	-
Other	0.1	-	-
CMBS	0.4	-	-
RMBS	0.4	-	-
CMBS/CRE CDO	0.1	-	-
Student Loan ABS	0.1	-	-
Transport	0.1	-	-
Utilities <sup>1</sup>	0.6	-	-
<b>Total</b>	<b>3.3</b>	<b>7.5<sup>2</sup></b>	<b>72.0<sup>3</sup></b>



90 (1) Previously disclosed separately as Credit Wrapped Bonds  
 (2) Collective provision is applied to the entire portfolio and is not assigned to individual sectors  
 (3) Provisions on this portfolio are booked against Held to Maturity assets

# Additional Information

- Business Banking
- Personal Banking
- Wholesale Banking
- NAB Wealth
- NZ Banking
- UK Banking
- Great Western Bank
- Specialised Group Assets

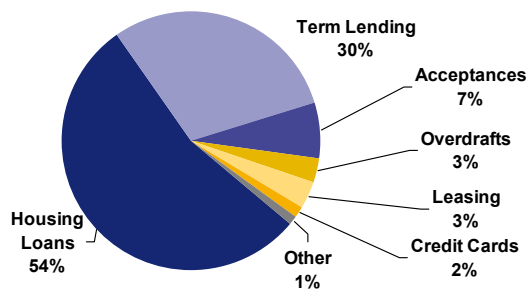
# Asset Quality

- Capital and Funding
- Other
- Economic Outlook

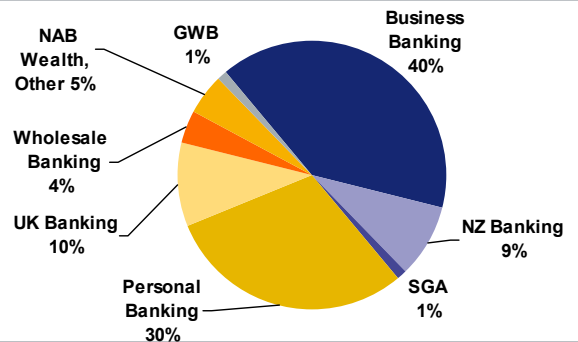


## Group portfolio

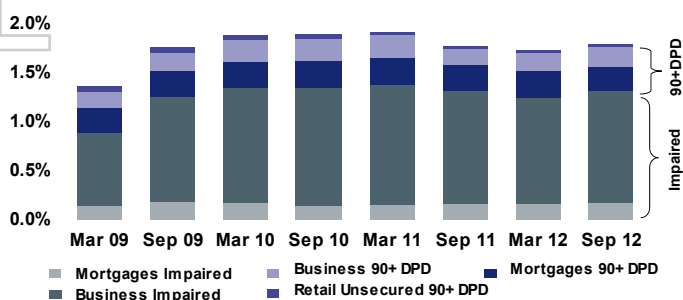
Gross loans and acceptances by product as at September 2012



Gross loans and acceptances by business unit as at September 2012

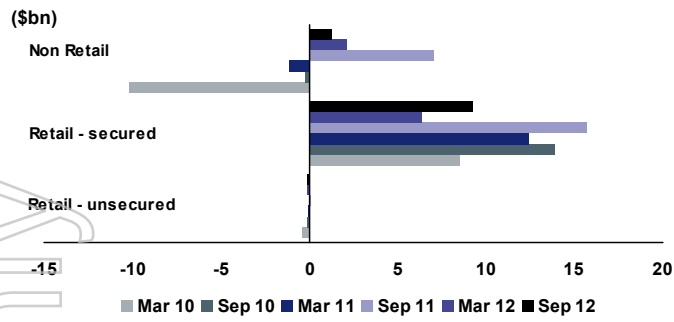


90+ DPD & impaired assets as a % of gross loans and acceptances by product

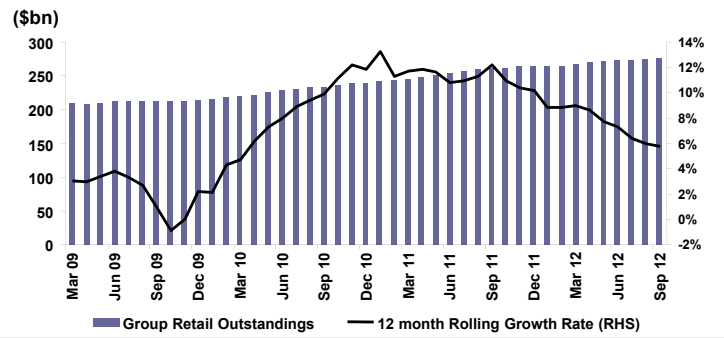


# Group gross loans and acceptances

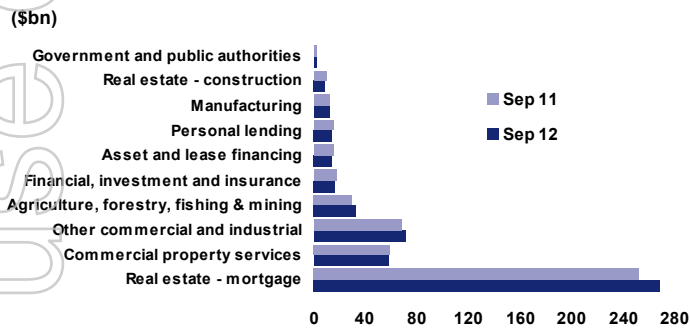
## Group asset composition – growth by product segment



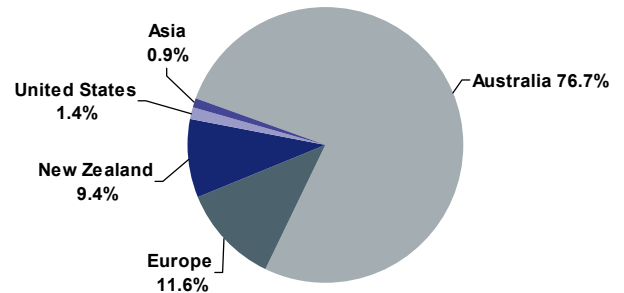
## Retail portfolio – outstandings volume



## Industry balances



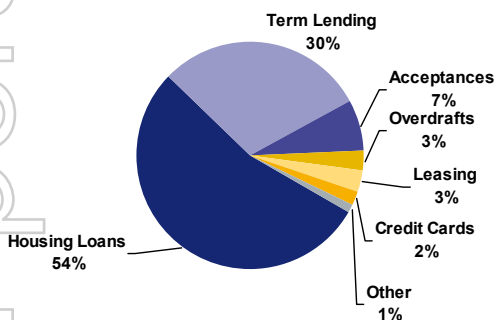
## Gross loans and acceptances by geography



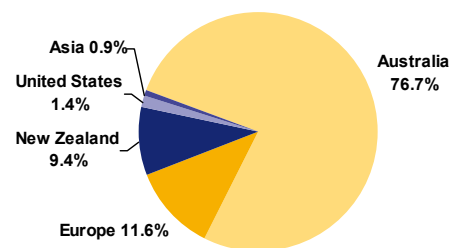
93 Note: These charts use spot exchange rates. Change in exchange rates relative to the Australian dollar since 2008 has partly affected growth rates

# Group portfolio – change over three year period

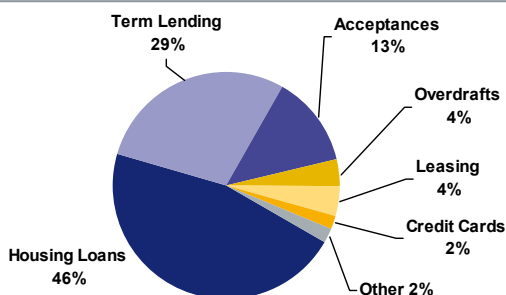
## September 2012 – Gross loans and acceptances by product



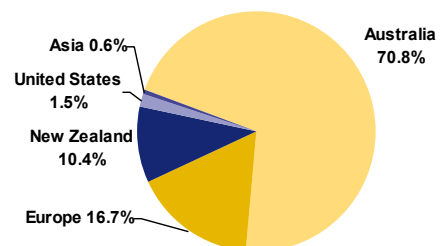
## September 2012 – Gross loans and acceptances by geography



## September 2009 – Gross loans and acceptances by product

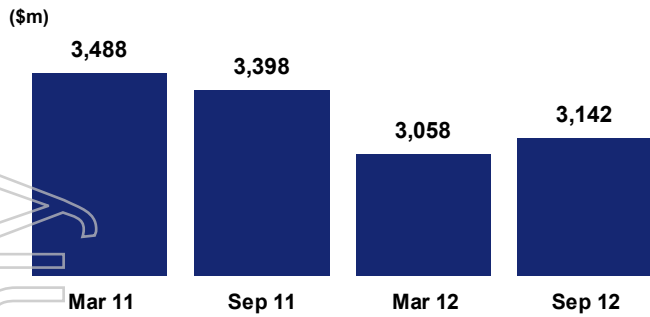


## September 2009 – Gross loans and acceptances by geography

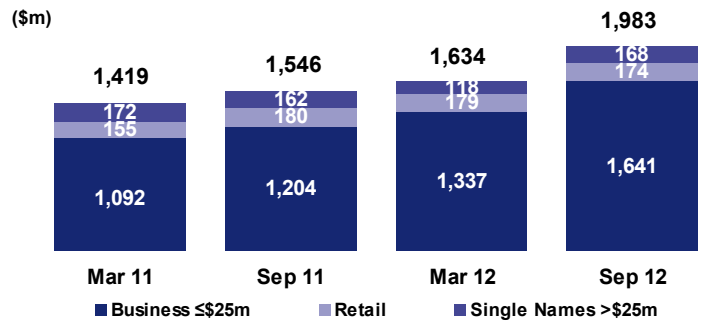


# Group provision balances and coverage ratios

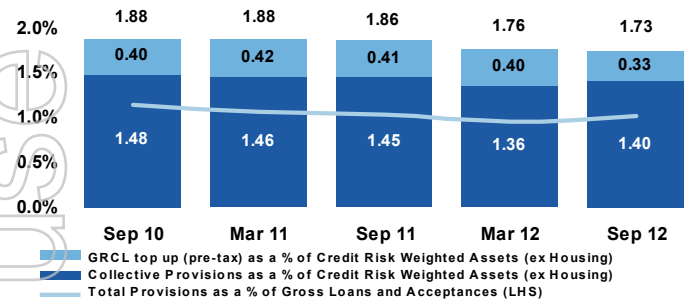
## Collective provision balances



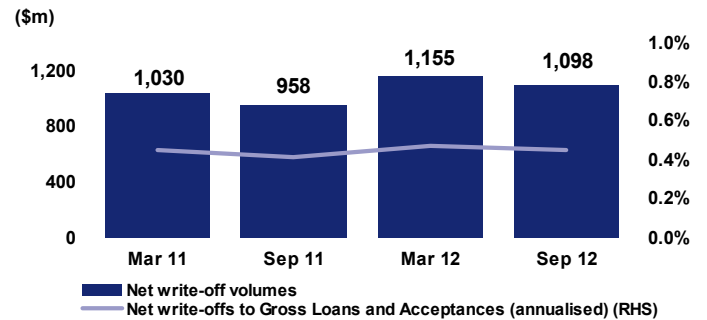
## Specific provision balances



## Coverage ratios



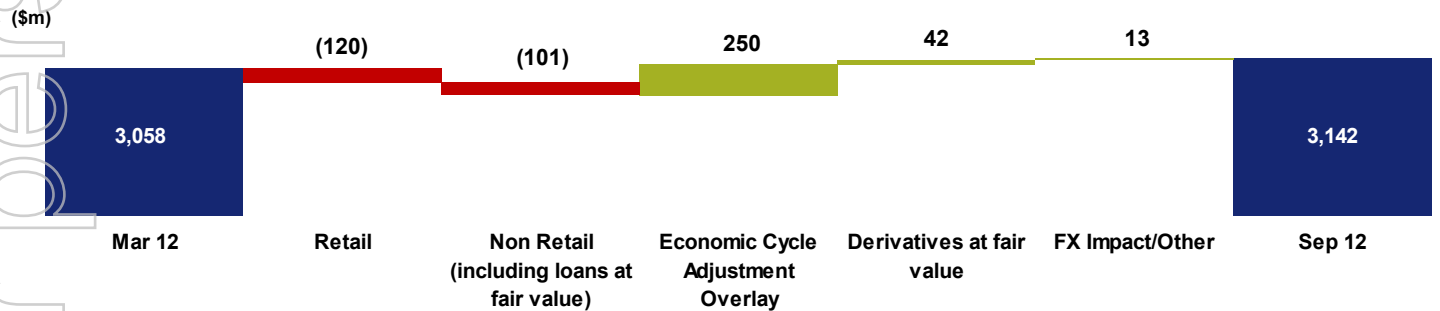
## Net write-off volumes



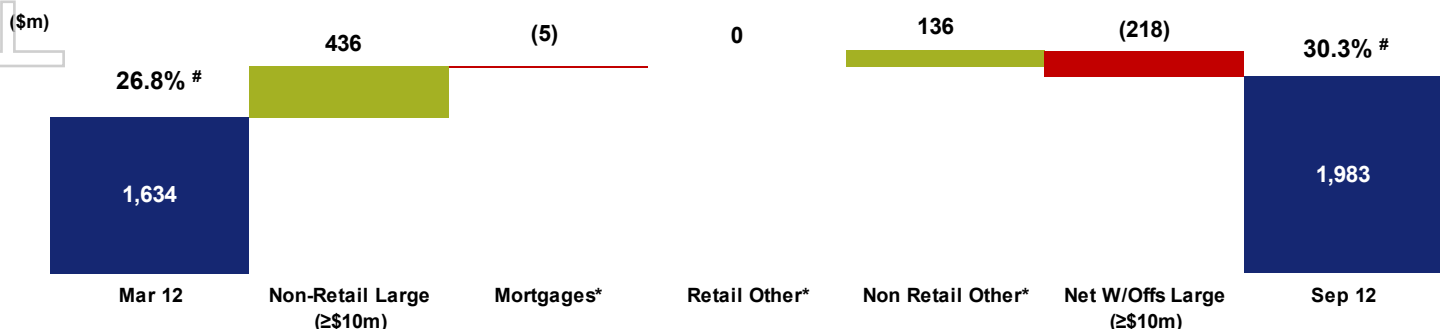
National Australia Bank

# Group provision movements

## Collective provision



## Specific provision



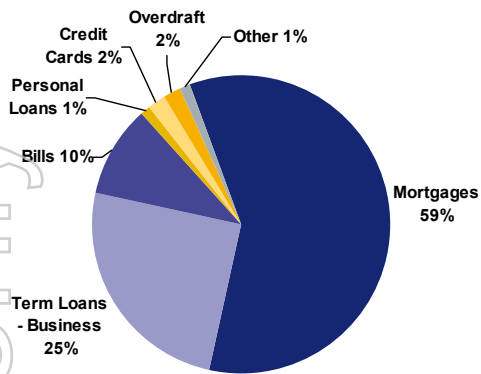
(#) Specific provision as a % of impaired assets  
 (\*) Net of write-offs

National Australia Bank



# Business Banking, Personal Banking and NAB Wealth

Portfolio breakdown – total \$371.0bn



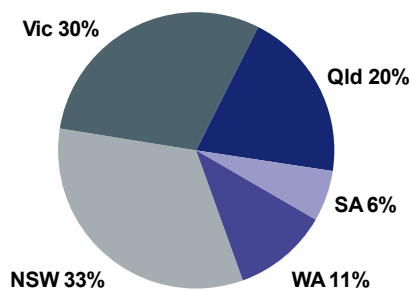
Australian Mortgages	Sep 12	Mar 12	Sep 11
Owner Occupied	71.4%	70.8%	70.2%
Investment	28.6%	29.2%	29.8%
Low Document	2.2%	2.4%	2.4%
Proprietary	66.6%	68.0%	69.0%
Third Party Introducer	33.4%	32.0%	31.0%
LMI Insured % of Total HL Portfolio	15.0%	14.7%	14.4%
Current Loan to Value Ratio (CLVR) <sup>1</sup>	56.3%	55.8%	52.4%
Customers ahead 3 repayments or more <sup>1</sup>	45.7%	45.4%	45.7%
Average loan size \$ ('000)	\$262.0	\$258.4	\$254.9
90 + days past due	0.50%	0.55%	0.48%
Impaired loans	0.30%	0.27%	0.29%
Specific provision coverage	19.1%	20.2%	19.6%
Loss rate	0.06%	0.06%	0.06%

97 (1) Ratio excludes Advantagedge mortgages portfolio



## Australian Mortgages<sup>1</sup> – \$220bn

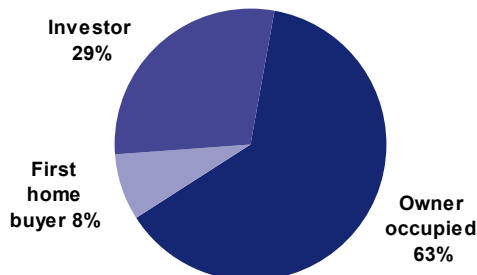
### Geography



### Low Doc Loans

- \$4.8bn outstanding (2.2% of housing book)
- LVR capped at 60% (without LMI)

### Customer segment



### Origination source – flows (Australia)

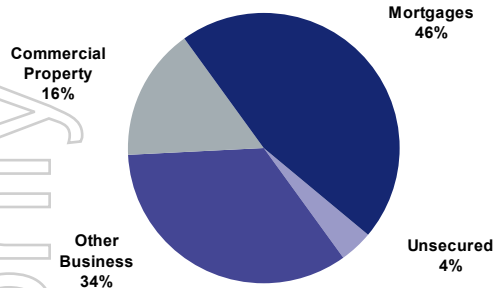
	Sep 12	Mar 12	Sep 11	Mar 11
Proprietary	61%	64%	61%	60%
Broker	32%	29%	31%	32%
Introducer	7%	7%	8%	8%

98 (1) Excludes Wholesale Banking



# UK Banking

Portfolio breakdown – total £33.2bn

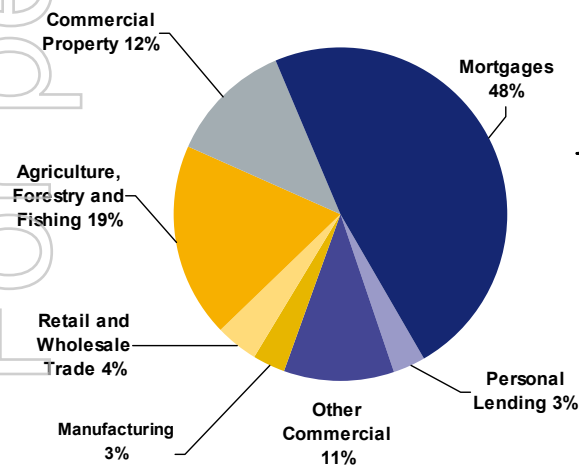


UK Mortgages	Sep 12	Mar 12	Sep 11
Owner Occupied	79.8%	79.7%	79.6%
Investment	20.2%	20.3%	20.4%
Low Document	0.0%	0.0%	0.0%
Proprietary	65.1%	72.0%	72.8%
Third Party Introducer	34.9%	28.0%	27.2%
LMI Insured % of Total HL Portfolio	1.2%	1.3%	1.4%
Loan to Value (at Origination)	62.9%	62.7%	64.0%
Loan to Value Indexed	53.6%	53.5%	53.4%
Average loan size £ ('000)	100	97	94
90 + days past due	0.51%	0.57%	0.62%
Impaired loans	0.46%	0.43%	0.44%
Specific provision coverage	20.0%	21.4%	30.1%
Loss rate	0.09%	0.11%	0.06%

 National Australia Bank

# NZ Banking

Portfolio breakdown – total NZ\$58.7bn



New Zealand Mortgages	Sep 12	Mar 12	Sep 11
Low Document Loans	0.26%	0.26%	0.24%
Proprietary	100%	100%	100%
Third Party Introducer	0.0%	0.0%	0.0%
Insured % of Total HL Portfolio <sup>1</sup>	11.8%	11.4%	10.7%
Loan to Value (at origination)	63.7%	63.5%	63.0%
Average loan size NZ\$ ('000)	258	252	248
90 + days past due	0.26%	0.31%	0.29%
Impaired loans	0.35%	0.46%	0.51%
Specific provision coverage	39.0%	38.7%	37.0%
Loss rate	0.10%	0.09%	0.08%

 National Australia Bank

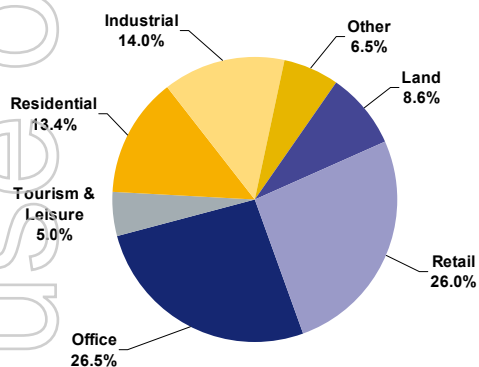
# Commercial Real Estate – Group Summary<sup>1</sup>

Total \$61.2bn

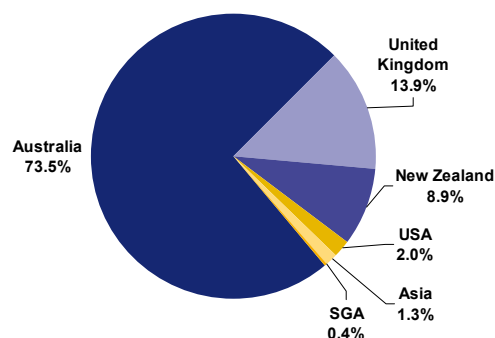
12.2% of Gross Loans & Acceptances

	Aus	UK <sup>2</sup>	NZ	USA <sup>2</sup>	SGA	Asia/Other	Total
TOTAL CRE (A\$bn)	45.0	8.5	5.4	1.2	0.3	0.8	61.2
Increase/(decrease) on Mar 12 (A\$bn)	2.0 <sup>3</sup>	(0.7)	0.0	0.0	(0.1)	0.0	1.2
% of GLAs	11.7%	16.4%	11.6%	18.5%	8.2%	16.3%	12.2%
Change in % on Mar 12	0.3%	(1.4%)	(0.3%)	(2.8%)	(2.0%)	(1.1%)	0.0%

## Group Commercial Property by type



## Group Commercial Property by geography



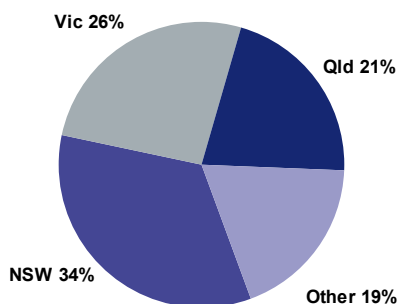
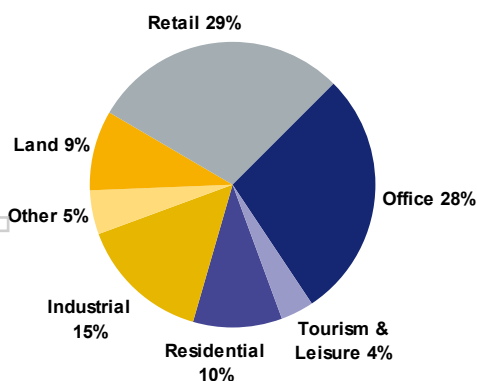
- (1) Measured as balance outstanding at September 2012 per APRA Commercial Property ARF 230 definitions  
 (2) Excludes SGA  
 (3) Of which \$1.5bn due to reclassifications in accordance with APRA guidelines



# Commercial Real Estate – Business Banking

Total \$45.0bn

11.7% of Australian geography  
Gross Loans & Acceptances



State	NSW	VIC	QLD	Other	Total
Location %	34%	26%	21%	19%	100%
Loan Balance < \$5m	10%	9%	7%	6%	32%
Loan Balance > \$5m < \$10m	4%	4%	2%	3%	13%
Loan Balance > \$10m	20%	13%	12%	10%	55%
Loan tenor < 3 yrs	28%	22%	18%	16%	84%
Loan tenor > 3 < 5 yrs	5%	3%	2%	2%	12%
Loan tenor > 5 yrs	1%	1%	1%	1%	4%
Average loan size \$m	3.4	2.6	3.0	3.3	3.1
Security Level <sup>1</sup> – Fully Secured	25%	22%	16%	16%	79%
Partially Secured	4%	3%	4%	3%	14%
Unsecured	5%	1%	1%	0%	7%
90+ days past due	0.05%	0.06%	0.03%	0.03%	0.17%
Impaired loans	0.97%	0.22%	1.40%	0.16%	2.75%
Specific provision coverage	8.5%	21.3%	14.2%	34.1%	14.0%

Trend	Sep 12	Mar 12	Sep 11	Mar 11
90+ days past due	0.17%	0.31%	0.20%	0.43%
Impaired Loans	2.75%	2.91%	3.12%	2.80%
Specific Provision Coverage	14.0%	16.4%	14.7%	16.6%

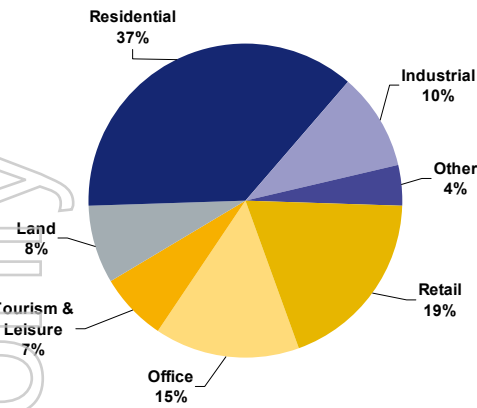
- (1) Fully Secured represents loans of up to 70% of the Market Value of Security. Partially Secured are over 70%, but not Unsecured. Unsecured is primarily Negative Pledge lending



# Commercial Real Estate - UK Banking

Total £5.5bn

16.4% of Gross Loans & Acceptances



Region	North	East	South	West	Total	
Location %	30%	29%	15%	26%	100%	
Loan Balance < £2m	15%	13%	7%	14%	49%	
Loan Balance > £2m < £5m	7%	6%	2%	5%	20%	
Loan Balance > £5m	8%	10%	6%	7%	31%	
Average loan tenor < 3 yrs	20%	18%	9%	15%	62%	
Average loan tenor > 3 < 5 yrs	3%	3%	3%	5%	14%	
Average loan tenor > 5 yrs	7%	8%	3%	6%	24%	
Average loan size (£m)	0.72	0.86	1.08	0.77	0.81	
Security Level <sup>1</sup>	Fully Secured	14%	13%	10%	14%	51%
	Partially Secured	15%	15%	5%	12%	47%
	Unsecured	1%	1%	0%	0%	2%
<b>Trend</b>						
	Sep 12	Mar 12	Sep 11	Mar 11		
90+ days past due	3.19%	1.91%	0.88%	1.42%		
Impaired Loans	16.39%	10.46%	9.12%	8.13%		
Specific Provision Coverage	30.8%	25.2%	11.2%	9.1%		

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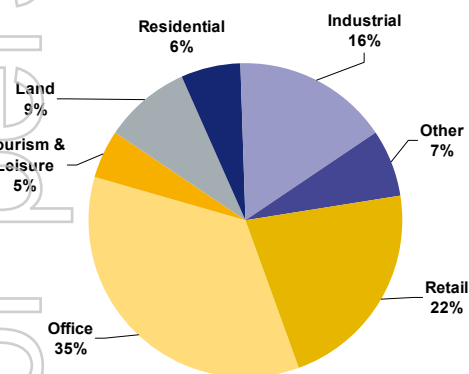
(1) Fully Secured represents loans of up to 70% of the Market Value of Security. Partially Secured are over 70%, but not Unsecured. Unsecured is primarily Negative Pledge lending



# Commercial Real Estate – NZ Banking

Total NZ\$6.8bn

11.6% of Gross Loans & Acceptances



Region	Auckland	Other Regions	Total	
Location %	37%	63%	100%	
Loan Balance < NZ\$5m	11%	26%	37%	
Loan Balance > NZ\$5m < NZ\$10m	5%	8%	13%	
Loan Balance > NZ\$10m	21%	29%	50%	
Loan tenor < 3 yrs	36%	55%	91%	
Loan tenor > 3 < 5 yrs	0%	4%	4%	
Loan tenor > 5 yrs	1%	4%	5%	
Average loan size NZ\$m	4.2	2.9	3.3	
Security Level <sup>1</sup>	Fully Secured	24%	43%	67%
	Partially Secured	11%	15%	26%
	Unsecured	2%	5%	7%
90+ days past due	0.39%	0.42%	0.81%	
Impaired Loans	0.12%	1.19%	1.31%	
Specific Provision Coverage	44.4%	20.8%	22.9%	
<b>Trend</b>				
	Sep 12	Mar 12	Sep 11	Mar 11
90+ days past due	0.81%	0.56%	0.50%	0.89%
Impaired Loans	1.31%	1.34%	1.66%	2.03%
Specific Provision Coverage	22.9%	17.2%	24.6%	21.3%

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(1) 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



## Additional Information

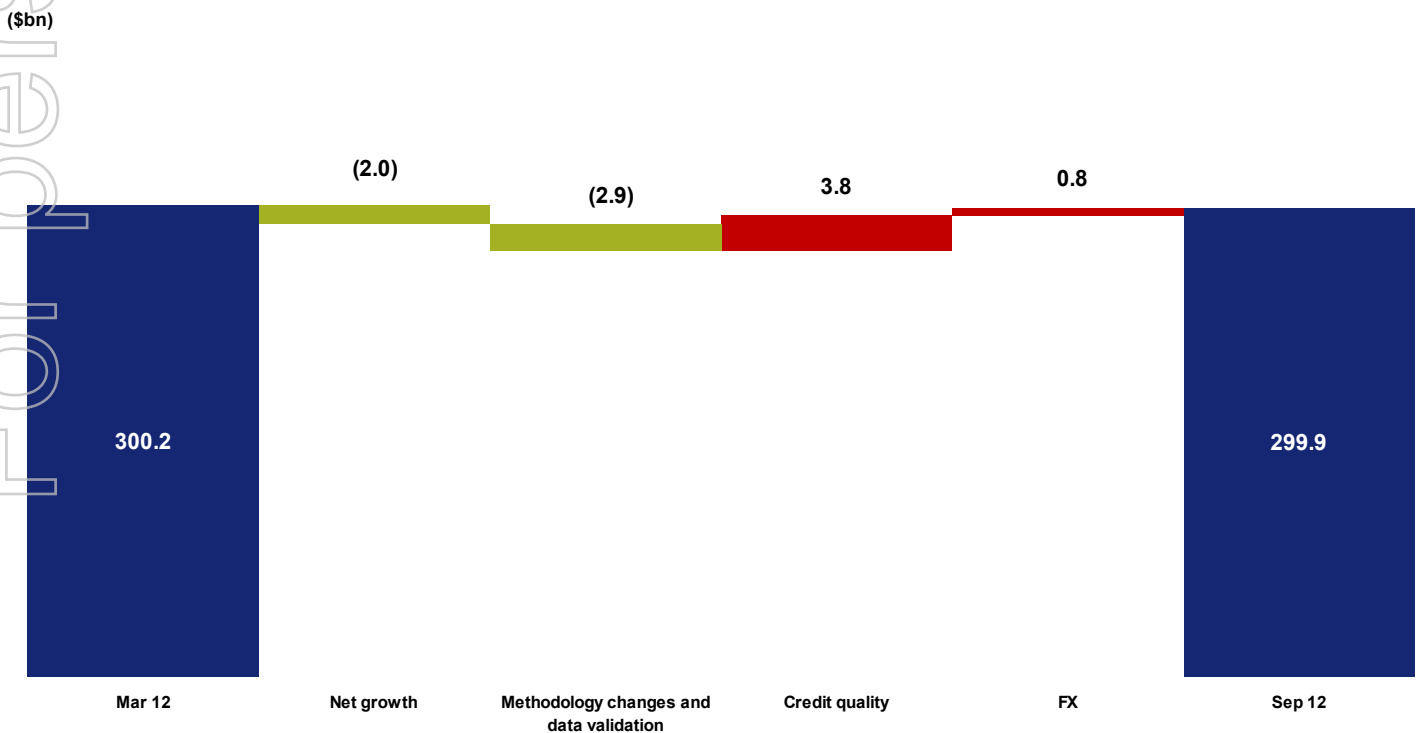
- Business Banking
- Personal Banking
- Wholesale Banking
- NAB Wealth
- NZ Banking
- UK Banking
- Great Western Bank
- Specialised Group Assets
- Asset Quality
- Capital and Funding**
- Other
- Economic Outlook

 National Australia Bank

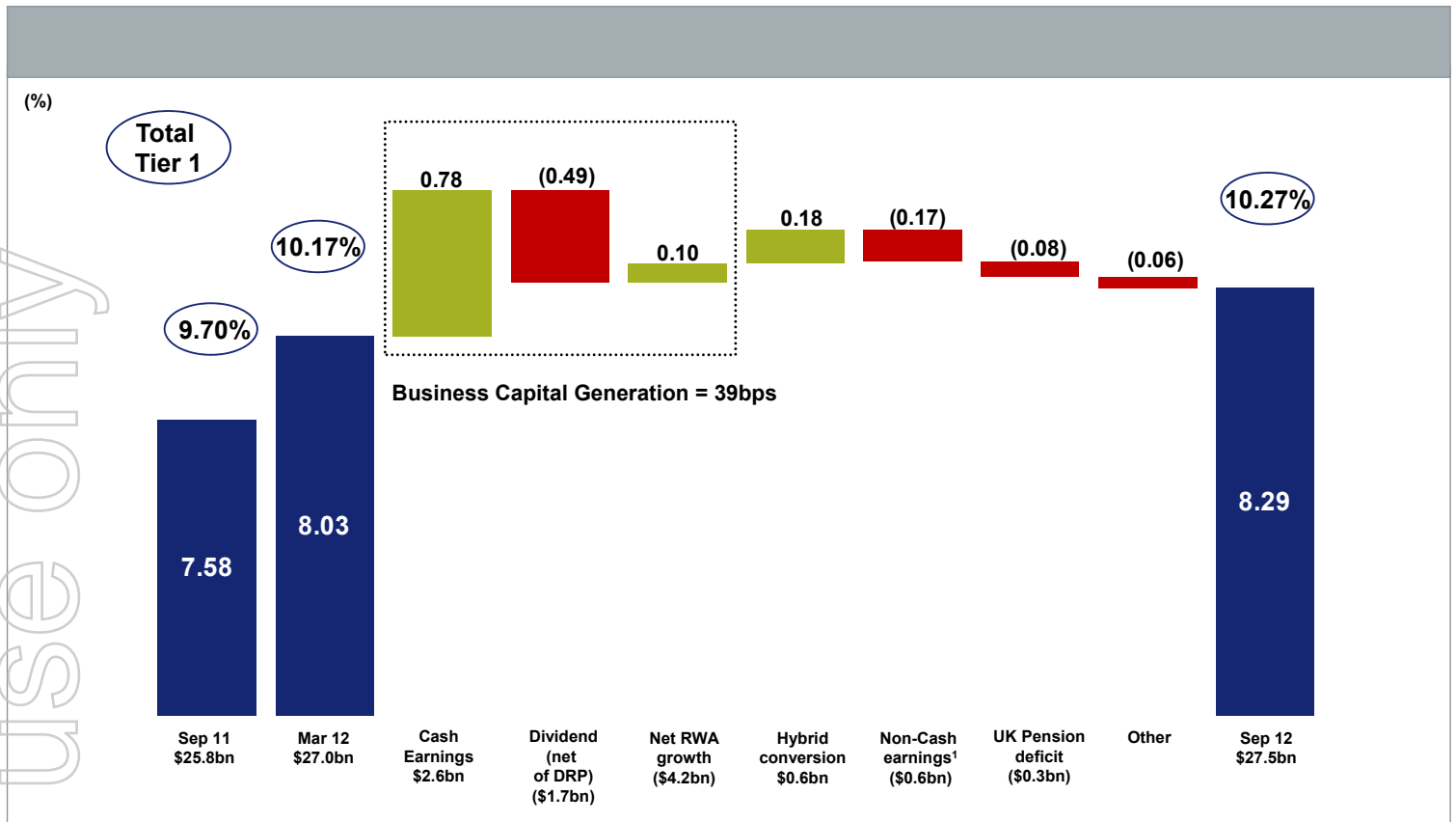
## Credit RWA movement

### Credit RWA movement March 2012 to September 2012



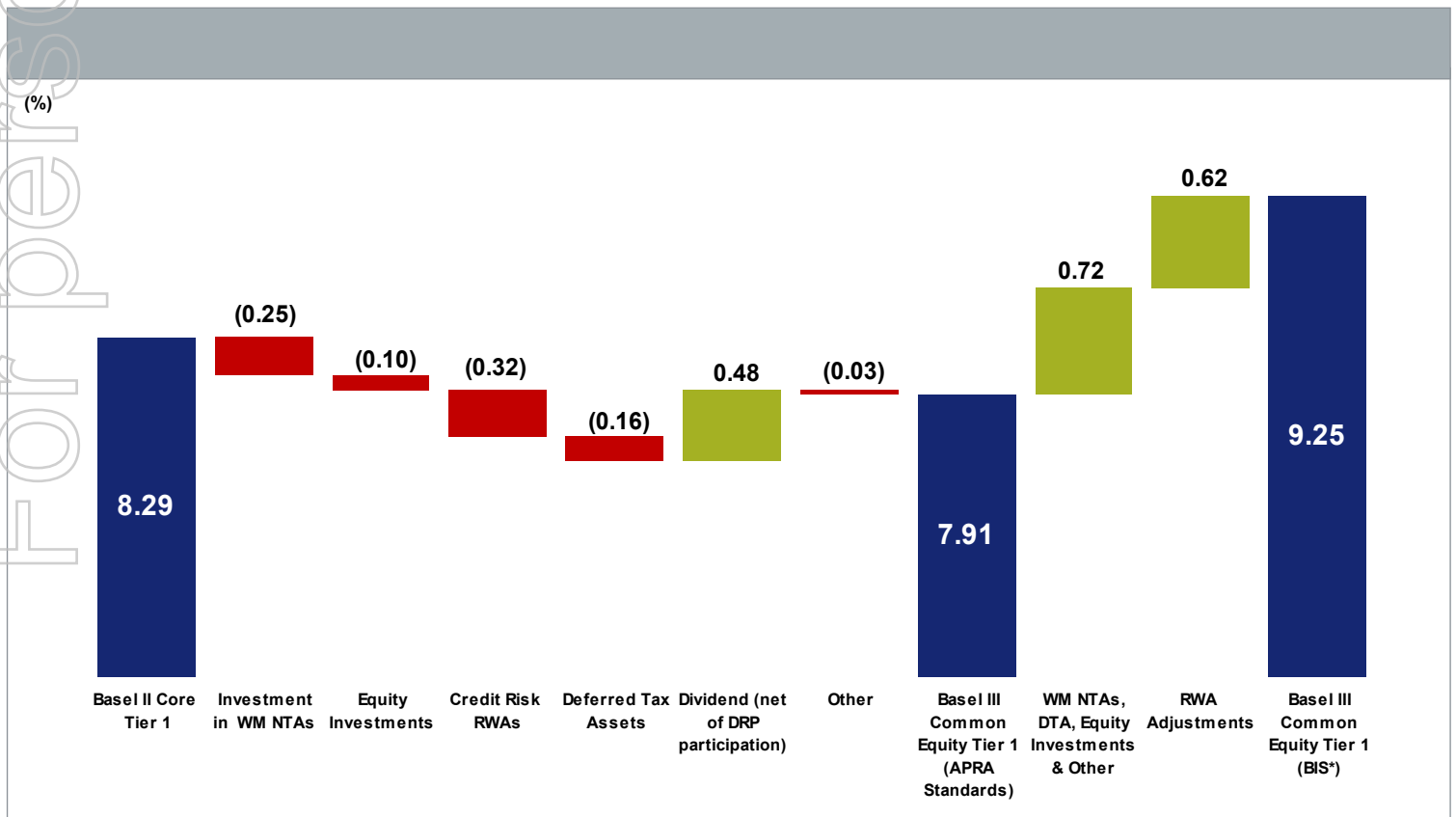
 National Australia Bank

# Strong Core Tier 1 (Basel II) capital position



107 (1) Non-cash earnings impact after adjusting for distributions, treasury shares, UK goodwill, software impairment, and separately disclosed items

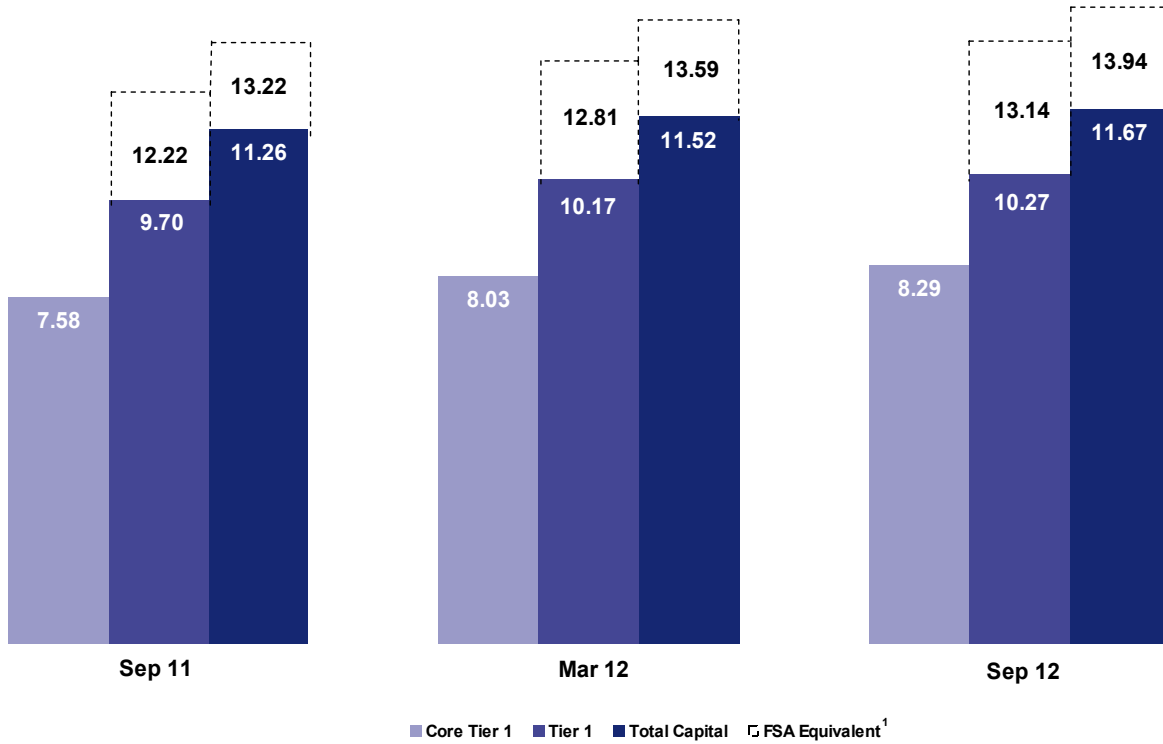
# Estimated impacts of Basel III: September 2012



108 (\*) BIS Basel III Common Equity Tier 1 excludes Treasury shares (33bps)

# Group Capital Ratios (Basel II)

(%)

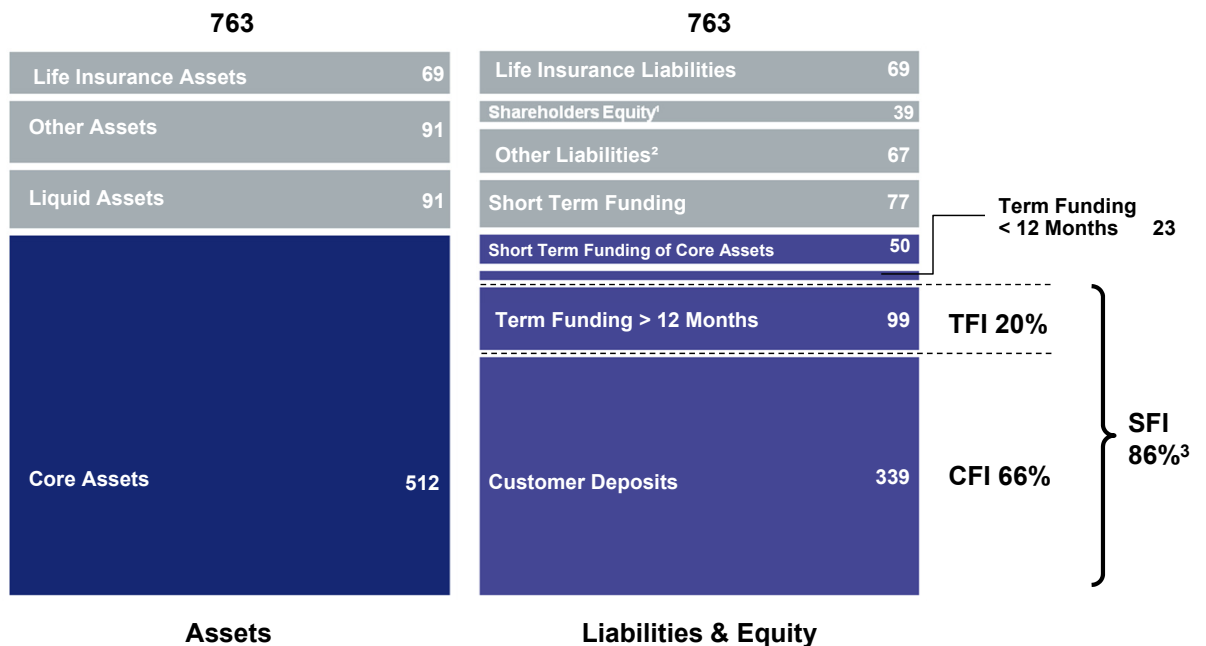


(1) The above comparison is based on public information on the FSA approach to calculating Tier 1. Some items cannot be quantified where the FSA may have entered into bi-lateral agreements on specific items, which are not generally in the public domain



## Asset funding

(\$bn)

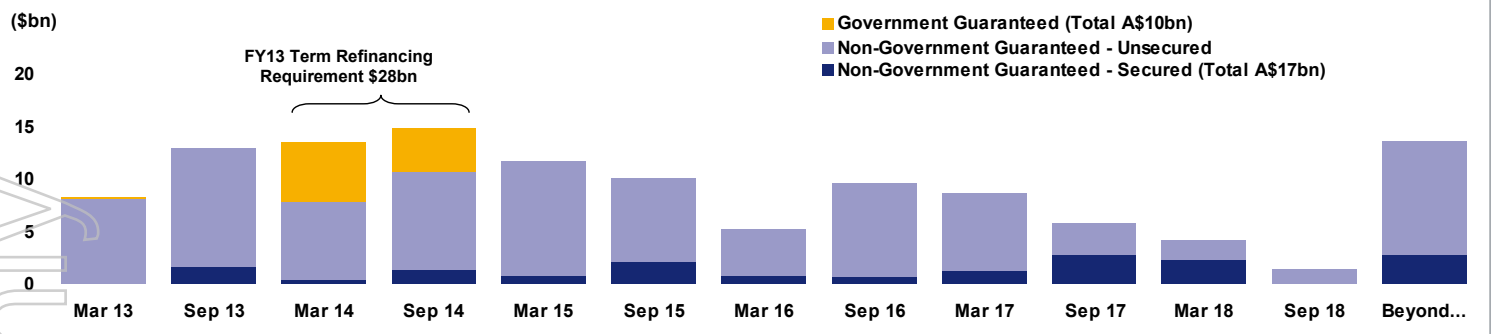


(1) Shareholder equity excludes preference shares and other contributed equity  
 (2) Other liabilities comprises mainly trading derivatives  
 (3) September 12 funding ratios have been restated. Net working capital is no longer adjusted from core assets and central bank deposits are now excluded from customer deposits.



# Funding profile remains robust

## Term Wholesale Funding Maturity Profile as at September 2012

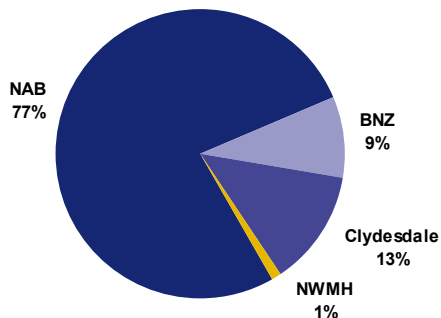


- The weighted average remaining maturity of the Group's term funding index qualifying (includes debt with > 12 months remaining term to maturity, excludes debt with < 12 months) senior, secured and subordinated debt is 3.7 years (3.2 years as at March 2012)
- The weighted average remaining maturity of the Group's senior, secured and subordinated debt is 3.1 years (2.8 years as at March 2012)
- The FY13 term funding requirement is largely driven by the need to refinance term debt that has less than 12 months remaining term to maturity during FY14

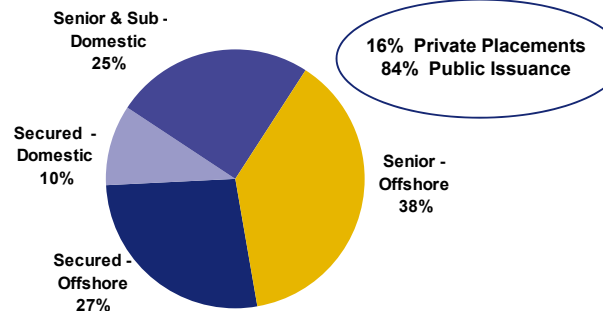


# Diversified funding issuance – September 2012

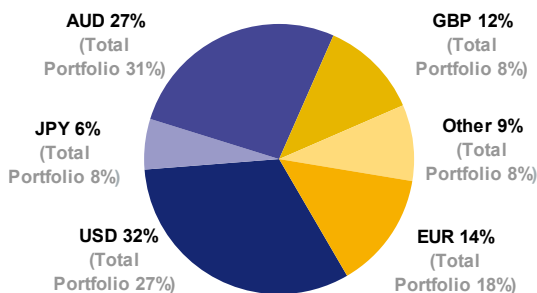
## Issuer (\$31.3bn)



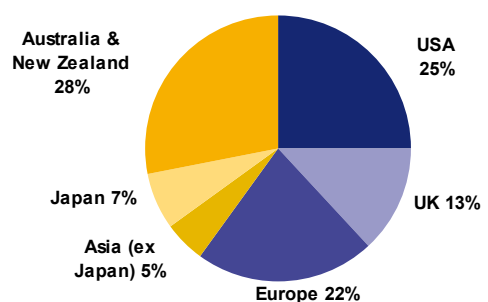
## Type (\$31.3bn)



## Currency (\$31.3bn)

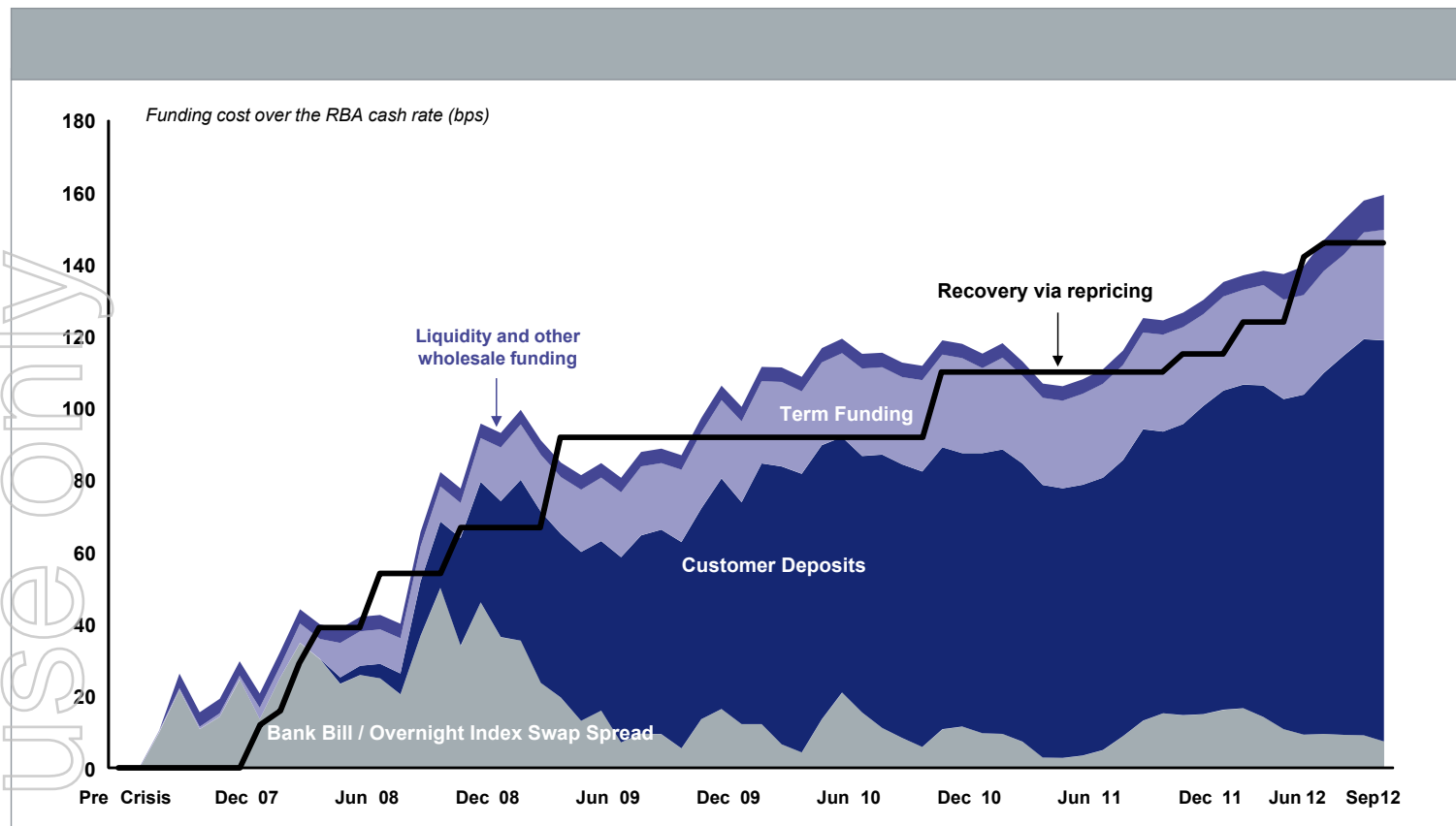


## Investor location (\$31.3bn)





# Increased cost of funding an Australian variable rate mortgage



 National Australia Bank

## UK FSA Capital Comparison – Basel II

Summarised below are details of current key differences as pertinent to the Group and identified by the ongoing Australian Bankers' Association (ABA) study "Comparison of Regulatory Capital Frameworks – APRA and FSA"<sup>1</sup>.

Item	Details of differences	Impact on Bank's Tier 1 capital ratio if FSA rules applied
RWA Treatment – Mortgages	APRA requires Loss Given Default estimate for loans secured by mortgages to be a minimum of 20% compared to a 10% minimum under FSA rules. This results in lower RWA under FSA rules.	Increase
Interest Rate Risk in the Banking Book (IRRBB)	APRA rules require the inclusion of IRRBB within Pillar 1 calculations. This is not required by the FSA and results in lower RWA under FSA rules.	Increase
Wealth Value of Business in Force at acquisition	This amount represents the value of business in force (VBIF) at acquisition of MLC, which is an intangible asset. VBIF is deducted from Tier 1 capital under APRA guidelines, whereas under FSA rules, it is deducted from Total capital.	Increase
Estimated Final Dividend	The FSA requires dividends to be deducted from regulatory capital when declared and/or approved. APRA requires dividends to be deducted on an anticipated basis, which is partially offset by APRA making allowance for expected shares to be issued under a dividend re-investment plan. This difference results in higher capital under FSA rules.	Increase
DTA (excluding DTA on the collective provision for doubtful debts)	APRA requires Deferred Tax Assets (DTA) to be deducted from Tier 1 capital, except for any DTA associated with collective provisions which are eligible to be included in the General Reserve for Credit Losses. Under FSA rules, DTA are risk weighted at 100%.	Increase
Eligible Deferred Fee Income	APRA requires certain deferred fee income to be included in Tier 1 capital. The FSA does not allow this deferred fee income to be included in Tier 1 capital, which results in lower capital under FSA rules.	Decrease
Capitalised Expenses	APRA requires a deduction from Tier 1 capital for up-front costs associated with a debt issuance. The FSA requires costs associated with debt issuance not used in the capital calculations to follow the accounting treatment.	Increase
Investments in Non-Consolidated Controlled Entities	APRA requires Wealth Net Tangible Assets (NTA) to be deducted 50/50 from Tier 1 and Tier 2 capital. The FSA allows embedded value (including NTA) to be included in Tier 1 capital and deducted from Total capital under transitional rules to 31 December 2012 (when it will revert to a 50/50 deduction from Tier 1 and Tier 2).	Increase
UK Defined Benefit Pension Scheme	The scheme continues to be in deficit as at 30 September 2012. Under FSA rules, the bank's deficit reduction amount may be substituted for a defined benefit liability. No deficit reduction amounts are presently being paid, therefore the liability can be reversed from reserves (net of tax) and no liability is required to be substituted at this time.	Increase

(1) The above comparison is based on public information on the FSA approach to calculating Tier 1. Some items cannot be quantified where the FSA may have entered into bi-lateral agreements on specific items, which are not generally in the public domain

 National Australia Bank

# UK FSA Capital Comparison – Basel II

## Estimated Impact on NAB's capital position

- The following table illustrates the impact on the Group's capital position considering these key differences between APRA and UK FSA Basel II guidelines
- This reflects only a partial list of the factors requiring adjustment

	Tier 1 Capital %	Total Capital %
30 September 2012 – APRA basis	10.27%	11.67%
RWA treatment – Mortgages <sup>1</sup>	1.14%	1.28%
IRRBB (RWA)	0.17%	0.18%
Wealth Value of Business in Force (VBIF) at acquisition <sup>2</sup>	0.48%	0.00%
Estimated final dividend (net of estimated reinvestment under DRP / BSP)	0.50%	0.50%
DTA (excluding DTA on the collective provision for doubtful debts)	0.24%	0.24%
Eligible deferred fee income	(0.06%)	(0.06%)
Capitalised expenses <sup>3</sup>	0.02%	0.02%
Investments in non-consolidated controlled entities (net of intangible component)	0.27%	0.00%
UK Defined Benefit Pension	0.11%	0.11%
<b>Total Adjustments</b>	<b>2.87%</b>	<b>2.27%</b>
<b>30 September 2012 – Normalised for UK FSA differences</b>	<b>13.14%</b>	<b>13.94%</b>

(1) RWA treatment for mortgages is based on APRA 20% loss given default (LGD) floor compared to FSA LGD floor of 10% aligned to the Basel II Framework

(2) This ignores any potential accounting differences between IFRS and UK GAAP

(3) Capitalised expenses associated with debt raisings only



## Basel II Risk Weighted Assets

Asset Class (\$m)	30 September 2012		31 March 2012	
	RWAs	RWA/EAD %	RWAs	RWA/EAD %
Corporate & Business	169,062	46%	168,534	43%
Mortgages	56,403	20%	56,351	21%
Retail	14,723	45%	15,025	43%
Standardised <sup>1</sup>	51,412	61%	52,253	63%
Other Assets	8,271	83%	8,022	79%
<b>Total Credit RWAs</b>	<b>299,871</b>	<b>39%</b>	<b>300,185</b>	<b>38%</b>
Market RWAs	4,436		5,277	
Operational RWAs	23,008		23,810	
IRRBB RWAs	4,021		6,281	
<b>Total RWAs</b>	<b>331,336</b>		<b>335,553</b>	



## Additional Information

Business Banking  
 Personal Banking  
 Wholesale Banking  
 NAB Wealth  
 NZ Banking  
 UK Banking  
 Great Western Bank  
 Specialised Group Assets  
 Asset Quality  
 Capital and Funding  
**Other**  
 Economic Outlook








 National Australia Bank

## Group financial result excluding UK Banking

(\$m)	Sep 12 Full Year	Change on Sep 11	Sep 12 Half year	Change on Mar 12
Net operating income	16,471	5.4%	8,264	0.7%
Operating expenses	(6,761)	1.1%	(3,338)	2.5%
Underlying profit	9,710	10.5%	4,926	3.0%
B&DDs	(1,649)	(21.3%)	(946)	(34.6%)
Cash earnings	5,646	9.2%	2,782	(2.9%)
Cash ROE	17.2%	10bps	16.7%	(100bps)
Spot GLAs (\$bn)	449.2	4.9%	449.2	2.3%

 National Australia Bank

# NAB's operational focus in Asia

Beijing NAB and MLC representative offices

Shanghai branch (Corporate and Business focus)

Fuzhou/Shanghai 16.8% stake in China Industrial International Trust

Tokyo & Osaka branches

> Institutional, Trade, Deposit Offers

Hong Kong

> Markets, Institutional, Trade, Business Banking, Personal Banking & Deposit Offers, Calibre Asset Management (financial planning)

Singapore branch  
> Institutional, Trade, Markets, Business Banking, Personal Banking & Deposit Offers

Indonesia representative office  
> Supporting offshore trade, wholesale banking and personal banking

Mumbai branch (Corporate and Business focus)



## Geographic Focus

- Trading partners of Japan, China, India and Indonesia
- Liquidity hubs of Singapore and Hong Kong
- Linking the flows of these markets with Australia and New Zealand

## Customer Focus

- Corporates and institutions in key industries
- Australian corporates linked to Asia, and Asian corporates with interests in Australia
- Wealthy individuals and families with links between NAB's home markets and Asia
- Local cash rich deposit customers

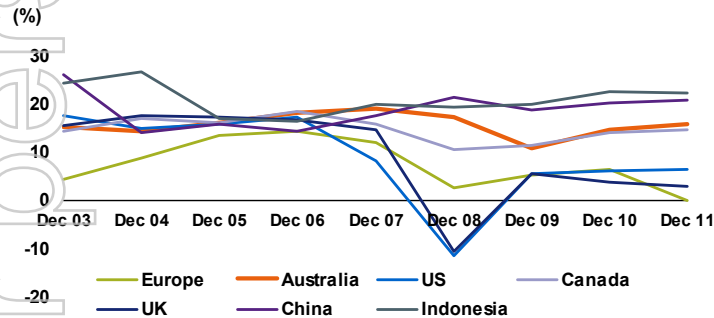
## Product Focus

- Corporate finance and trade finance
- FX products, interest rate and commodity risk management
- Multi-currency mortgages
- Institutional and retail deposits



# Bank returns in context

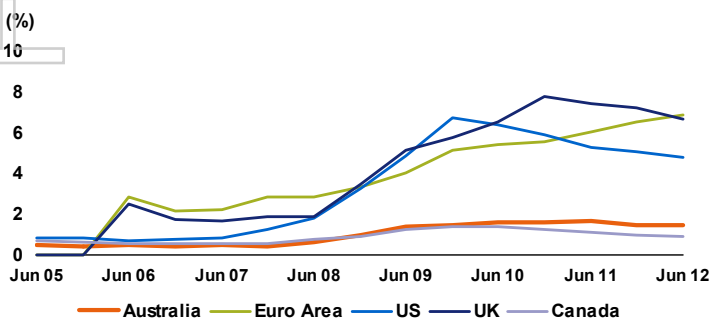
## Large banks' Return on Equity<sup>1</sup>



## Returns for all stakeholders

- Australian bank ROEs higher than US, UK and Europe, but lower than Canada and some Asian countries
- Difference largely explained by Australia's lower level of non-performing loans
- Healthy returns from the banking system benefit the economy in many ways

## Large banks' non-performing loans as % share of loans<sup>2</sup>



## NAB contributions to Australian economy

	FY12	Comments
Income tax	~\$1.8bn	Top 10 Australian company taxpayer
Employment	28,127 permanent employees, \$2.6bn cost	One of Australia's largest employers
Community investment	\$34.9m	Focused on education, inclusion, indigenous development, mental health
Lending	\$384bn	Grew business lending vs broader system contracting Nov 08-Aug12
Dividends paid	\$3.9bn	Including 456K Australian retail shareholders

(1) RBA Financial Stability Report Sept 2012 (Bloomberg, RBA, banks' annual and interim reports), Nomura. ROE of 6 largest US banks, 8 largest listed euro area banks, 4 largest UK banks, 6 largest Canadian banks, 4 largest Australian banks, 8 largest Chinese banks by market capitalisation, 5 largest Indonesian banks by market capitalisation; adjusted for significant mergers and acquisitions.  
 (2) RBA Financial Stability Report Sept 2012 (APRA, RBA, SNL Financial, banks' annual and interim reports). Definitions of 'non performing' differ across jurisdictions, and in some cases exclude loans that are 90+ days past due but are not impaired; includes 18 large US banks, 52 large institutions from across the Euro area, 13 large other European banks, 4 UK banks, the 6 largest Canadian banks and the 4 largest Australian banks. Latest available ratios have been used for some Euro area and UK institutions where June 2012 data are unavailable.



# Additional Information

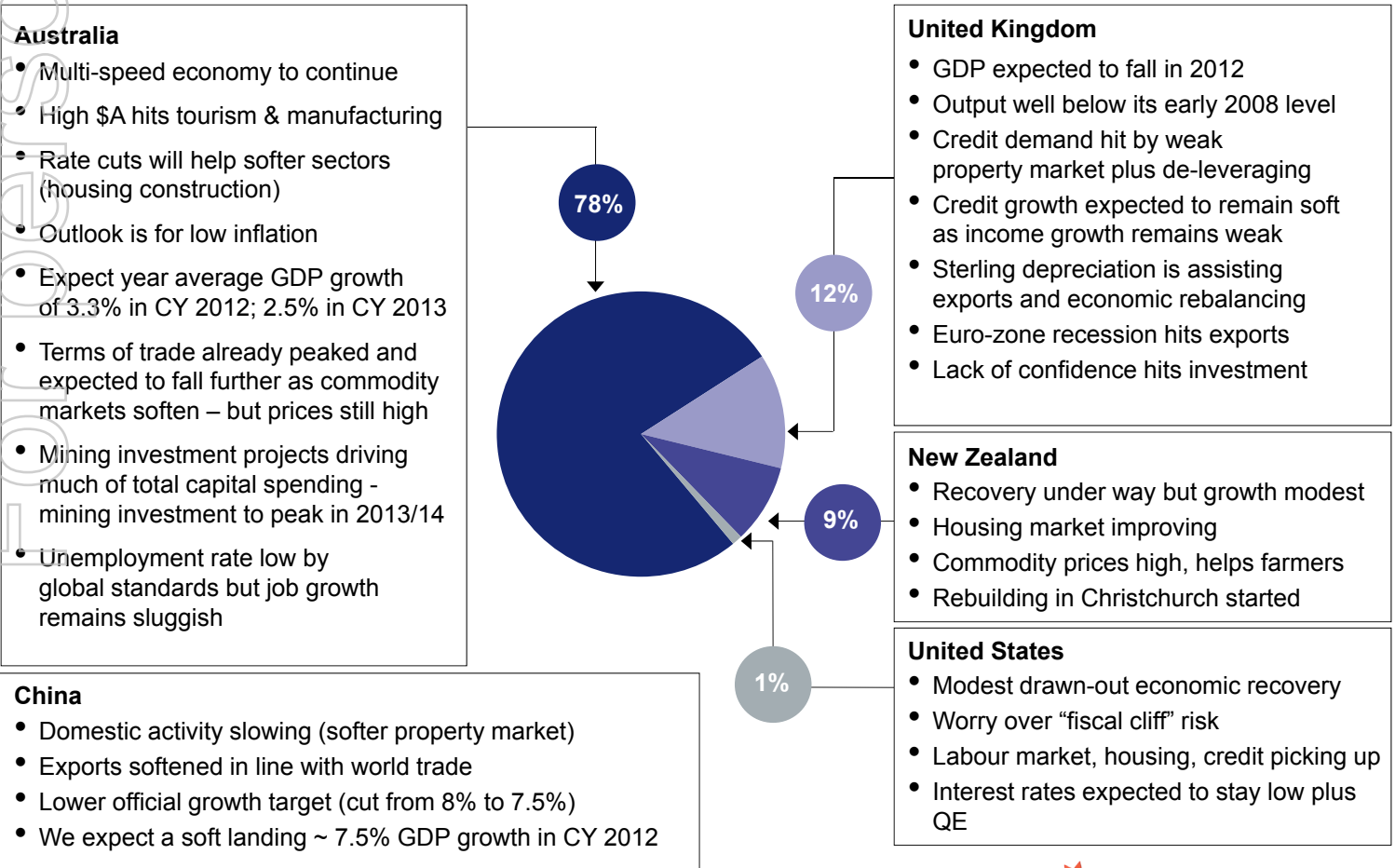
- Business Banking
- Personal Banking
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# Economic Outlook

Use only

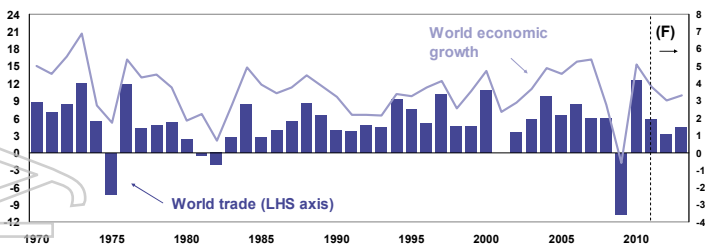


## Economic outlook



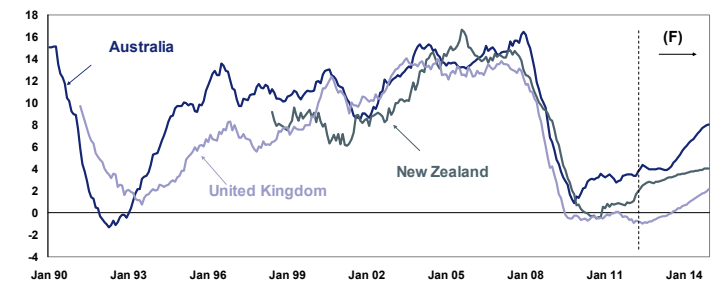
# Economic conditions

## Annual % growth in global trade and GDP - 1970 - 2013



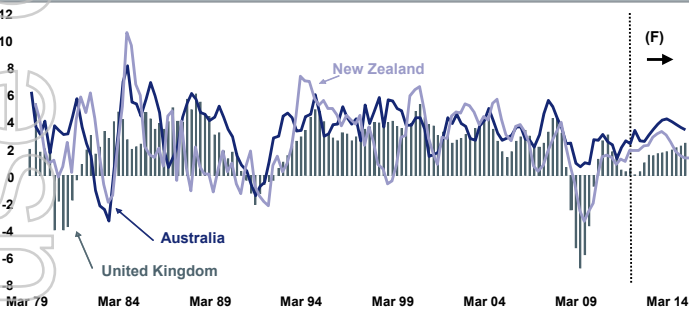
IMF, OECD, Datastream, NAB Forecasts

## System credit growth % change year-on-year



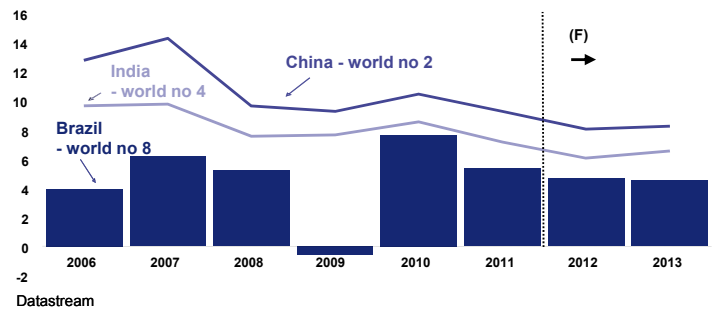
RBA, RBNZ, Bank of England, NAB Forecasts

## Real GDP % change year on year



ONS, ABS, SNZ, Datastream, NAB Forecasts

## Annual % growth in emerging economies



Datastream

123 (F) Forecast



# Australia regional outlook

Economic Indicators (%) <sup>1</sup>	CY10	CY11	CY12 (f)	CY13 (f)	CY14 (f)
GDP growth	2.5	2.1	3.3	2.5	2.8
Unemployment rate	5.0	5.1	5.3	5.4	5.6
Core inflation	2.4	2.7	2.2	2.8	2.8
Cash rate	4.75	4.25	3.0	3.0	3.5
System Growth (%) <sup>2</sup>	FY10	FY11	FY12(f)	FY13(f)	FY14(f)
Housing	7.6	5.8	4.7	5.7	8.4
Other personal (incl cards)	2.8	-1.0	-1.4	0.5	4.5
Business	-3.3	0.3	3.7	4.0	7.0
Total system credit	3.2	3.4	3.9	4.8	7.7
Total A\$ ADI deposits <sup>3</sup>	5.7	8.5	6.9	7.0	8.0

(1) Percentage change at year end December, except for GDP, which is year-average at year end December, and cash and unemployment rates, which are as at end December

(2) Percentage change at bank fiscal year end September

(3) Total ADI deposits also include wholesale deposits (such as CDs), community and non-profit deposits but exclude deposits by government & ADIs

- Australian GDP growth eased to 0.6% in Q2 following 1.4% (revised up) in Q1. Moderate consumption and business investment growth were supported by solid public demand and export growth. Growth likely to soften in H2 2012. Key drivers of slower expected activity include; falling income growth from lower commodity prices, a high AUD and fiscal tightening (federal and state). According to the NAB Business Survey, business conditions are well below long-run average levels, while levels of overall business confidence remain down beat, particularly in mining and manufacturing
- The economy continues to exhibit a multi-speed nature. The persistent disparity in industry conditions indicates that the Australian economy is undergoing a structural transformation towards mining and service-based industries, and away from traditional manufacturing and discretionary retailing
- Into the medium term, the mining sector will remain a significant part of Australia's growth story. We expect the mining investment boom to peak in late 2013 / mid 2014 with the effects of the softening in business investment activity to largely be offset by a strengthening in exports, though the demand for labour is likely to weaken
- The RBA lowered the cash rate by 25 bp to 3.25% at its October meeting. A weaker demand profile, continued retail discounting and the still strong AUD should see inflation remain within the RBA's 2-3% target band. Provided inflation comes in close to expectations, we now expect to see an additional 25 bp rate cut in November. This should help to counterbalance lower commodity prices, fiscal tightening and the impacts on some industries from the persistently high AUD (in particular, manufacturing and domestic tourism). While currently quite low, trending around 5¼%, we see the unemployment rate rising to above 5½% by end 2014, though accommodative policy in 2013 should help to offset some of the increase
- Business credit growth has been fairly soft in recent months and is expected to remain moderate over 2013 – with business and consumer caution still very much to the fore. Consistent with high savings rates, personal credit growth is expected to remain flat. Housing credit has remained relatively modest but could edge higher in the face of lower rates, a stabilising house price market and continued undersupply



## UK regional outlook

Economic Indicators (%)	CY10	CY11	CY12	CY13(f)	CY14(f)
GDP growth	1.8	0.9	-0.2	1.3	2.1
Unemployment	7.9	8.3	8.1	7.9	7.7
Inflation	3.3	4.5	2.2	2.0	2.0
Cash rate	0.5	0.5	0.5	0.5	0.5
System Growth (%)	FY10	FY11	FY12	FY13(f)	FY14(f)
Housing	0.9	0.7	0.8	1.2	2.3
Consumer	-1.8	-1.1	-0.6	0	1.0
Business	-3.3	-2.5	-3.1	-2.2	-0.8
Total lending	-0.9	-0.7	-0.7	-0.1	1.0
Retail deposits	4.4	3.1	3.6	4.0	4.4

- The UK economy went back into recession in late 2011 and the first half of 2012 but returned to growth in September quarter. Output is still below its early 2008 level and the latest growth figures have been boosted by temporary special factors. A moderate and sustained recovery in activity is expected to persist through 2013. The property market has started weakening again with housing and commercial property prices drifting down
- Although activity has been cushioned by the lowest policy interest rates on record, the central bank's efforts to boost liquidity and the lagged impact of the big Sterling depreciation in 2007/8, it has been held back by pressure on household incomes and austerity in the public sector
- The UK economy needs to be 're-balanced' so that exports and business investment play a larger role in future growth while the contribution from consumer spending and the public sector falls below what was seen pre-2008. However, although exports are benefiting from improved UK cost competitiveness they have been held back by the weakness in key Euro-zone export markets. Business investment has been weaker than expected as firms hold back on their projects due to a lack of confidence
- Inflationary pressures are now subsiding and that should help limit the erosion of household incomes that has undercut consumer spending. However borrowing remains very low, the savings ratio is higher and unemployment is well above its 2007 level – factors that should discourage any rapid recovery in consumer spending (which is still below its early 2008 level). Consumer spending should recover through 2013
- Overall, the UK economy faces a long difficult period as private sector de-leveraging continues at a time of government cutbacks. The danger is that demand proves insufficient to give business the confidence to invest heavily and the economy gets caught in a low-growth trap. System credit growth is forecast to remain very modest and bad debts, which have been held down by lender forbearance and very low interest rates, could remain elevated for an extended period



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## NZ regional outlook

Economic Indicators (%)	CY10	CY11	CY12	CY13(f)	CY14(f)
GDP growth	1.7	1.3	2.5	2.2	1.6
Unemployment	6.7	6.4	6.2	5.8	5.7
Inflation	4.0	1.8	1.5	2.4	3.3
Cash rate (end period)	3.0	2.5	2.5	2.75	4.25
System Growth (%)	FY10	FY11	FY12	FY13(f)	FY14(f)
Housing	3.1	1.6	1.5	2.6	3.4
Personal	-3.6	-1.4	0.3	2.0	2.7
Business	-3.1	-0.8	2.2	3.7	4.2
Total lending	0.3	0.5	1.7	3.0	3.7
Household retail deposits	2.4	7.0	8.9	8.8	8.0

- New Zealand's outlook is for moderate growth, consistent with the constraints facing the economy (high NZD hitting competitiveness, fiscal austerity). Commodity prices have fallen but, on average, remain above historical averages. Parts of the economy like manufacturing and tourism are being hit by the high currency
- After a long period of weakness, domestic demand has been looking stronger with an upturn in the housing market and stronger consumer spending. The rate of demand increase will be muted by the lift in the household savings ratio and weak appetite for credit but rising employment is supporting increased disposable income and that will underpin further growth in spending. The rebuilding of Canterbury is adding to the demand upturn by substantially boosting construction activity
- The main risks facing the economy come from the external accounts where the current account deficit is expected to widen considerably through the next few years. As New Zealand is already a highly indebted economy, this could lead to some downward pressure on the NZ\$ which would not be unwelcome as it is viewed as probably being over-valued based purely on the competitiveness of local industry
- The upturn in domestic spending and the property market should support a modest acceleration in system credit growth, where there has already been a step up in business lending. Household sector deposit growth is expected to remain rapid, limiting the extent to which banks have to rely on offshore funding – a source of potential vulnerability

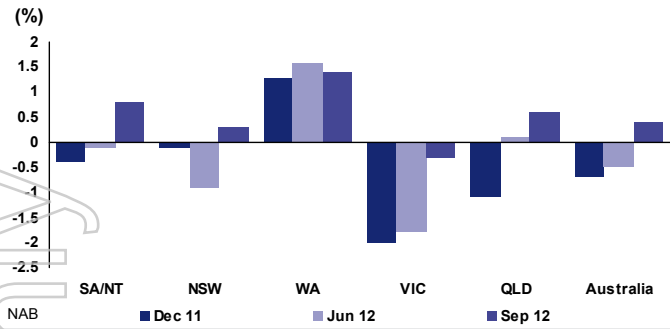


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# Australian housing prices and debt

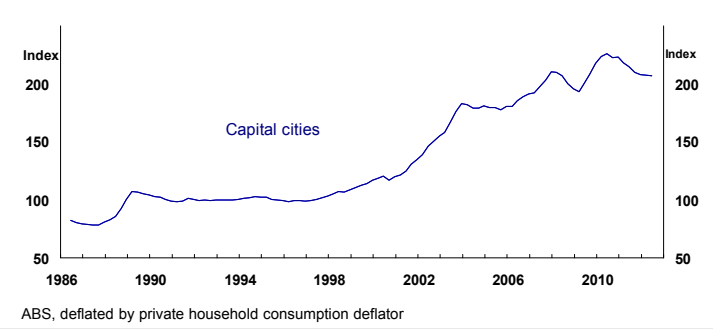
## Expected house price growth

12 months ahead

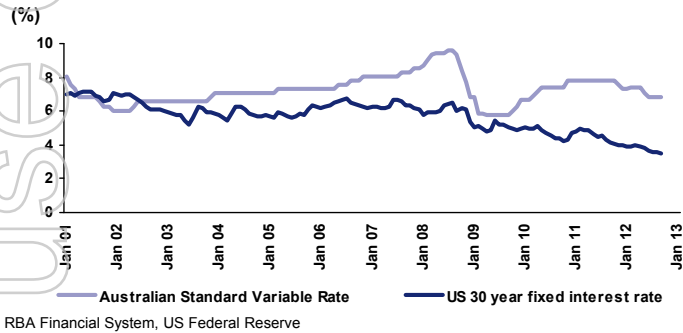


## Real dwelling prices

1993 = 100



## Most common mortgage interest rates



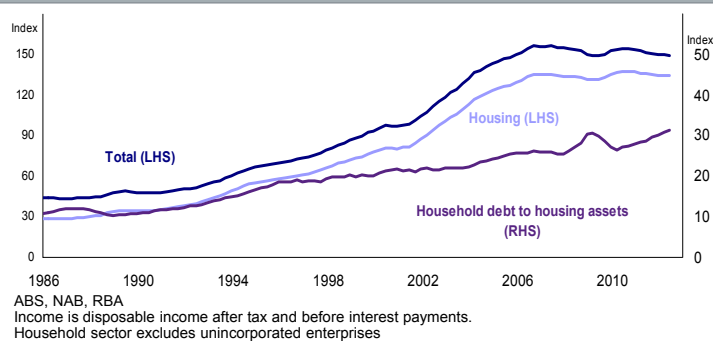
- House price growth was most marked from mid 1990s to 2004, and also accelerated sharply through 2009 and the first half of 2010.
- House prices appear to have stabilised over recent months, helped by relatively low borrowing rates, combined with the repair of household balance sheets that has occurred since the GFC.
- House price growth may be expected to increase somewhat over the year ahead as the full impacts of RBA rate cuts filter through the economy. Consistent with this, the NAB Residential Property Survey shows that expectations are now for positive growth in Australia over the next 12 months.



# Characteristics of the Australian Mortgage Market

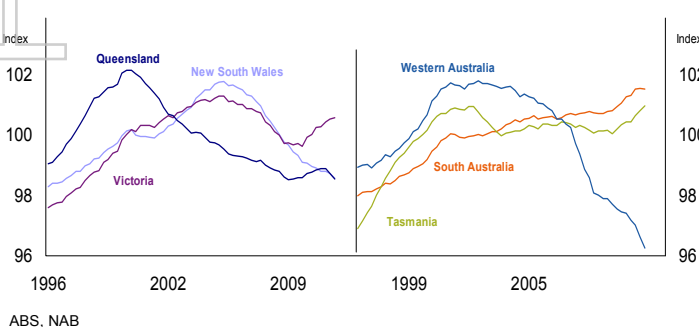
- Solid population growth combined with an insufficient expansion in Australia's dwelling stock has led to an undersupply of housing in most regions
- While Australia's household debt service burden remains at historically high levels, it has improved marginally in the face of lower borrowing rates and household de-leveraging. Furthermore, when looking at dwelling price to income ratios, Australia is within normal ranges when compared to the rest of the world
- The September quarter NAB Australian Property Survey indicates that lower interest rates and rental growth are boosting local investor demand in the existing property market. Overseas buyers are also emerging as important players in the market for new developments. First home buyer activity softened a little in the quarter, possibly reflecting the end to some state first home bonus schemes. Employment security has become entrenched as the biggest impediment to purchasing existing property according to our survey panel, especially in Victoria and Queensland
- Around 80% of Australian mortgages are at variable rates, making the most common mortgage rate very sensitive to changes in monetary policy

## Household debt-to-income ratio

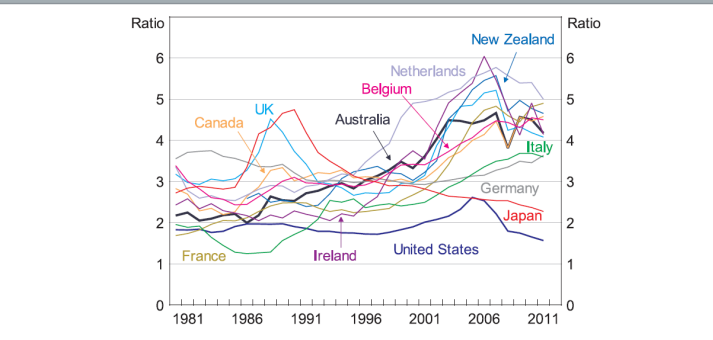


## Ratio of dwellings to resident population

State average = 100



## Dwelling price to income ratios<sup>1</sup>



(1) Average dwelling prices to average household disposable income  
Sources: BIS; Bloomberg; CREA; Halifax; Japan REI; OECD; Quotable Value; RP Data-Rismark; Thomson Reuters; UN; national sources (statistical agencies, central banks and government departments)

