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ASX ANNOUNCEMENT

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NAB 2012 Half Year Results

Solid result and progress against strategic agenda

Key Points

The 31 March 2012 half year results are compared with 31 March 2011 half year results unless otherwise stated.

- On a statutory basis, net profit attributable to owners of the Company[1] was $2.052 billion, a decrease of $376 million or 15.5%. The difference between net profit attributable to the owners of the company and cash earnings was primarily due to the charges relating to the outcomes of the UK Banking strategic review referred to in the ASX Announcement dated 30 April 2012, and accelerated amortisation of hedging costs on exited SCDO assets.
- On a cash earnings[2] basis:
  - Cash earnings were $2.828 billion, an increase of $160 million or 6.0%, largely due to strong results in Wholesale Banking and NZ Banking, and higher earnings in Business Banking and Personal Banking. This was a solid result, particularly considering the increasingly difficult operating conditions for UK Banking during the period. Challenging economic conditions, subdued credit growth, and a full regulatory agenda presented challenges across the industry and the Group.
  - Revenue grew by 3.5% to $9.108 billion, an outcome reflecting subdued credit demand and higher funding costs. The growth was primarily driven by Wholesale Banking. Business Banking, Personal Banking and NZ Banking also had higher revenue, having recorded volume growth ahead of system.
  - Net interest margin decreased by 6 basis points, largely as a result of higher wholesale and deposit funding costs.
  - The Group again delivered positive 'jaws' with revenue continuing to grow faster than expenses. Costs were lower than in both the previous half and the prior corresponding period.
  - The charge to provide for bad and doubtful debts was $1.131 billion[3], an increase of $143 million or 14.5%, primarily due to higher charges in UK Banking as a result of the further economic downturn, and increases in the specific provision for the SGA leveraged finance and commercial property portfolios. However, in aggregate, asset quality metrics were generally improved.
- Balance sheet strength remained a focus, with sound capital, funding and liquidity positions being maintained. During the half, the Group raised $14.455 billion of term wholesale funding (including secured funding).

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1 Reviewed in accordance with Australian Auditing Standards
2 Refer to note on cash earnings on page 6 of this document
3 On a statutory basis, bad and doubtful debts were $1.321 billion. The difference between the charge for bad and doubtful debts on a statutory basis and the charge for bad and doubtful debts on a cash earnings basis mainly relates to a charge arising from a default of two of the Group's SCDO's for which the Group has received off-setting compensation.

- The Stable Funding Index was 85% compared with 84% at March 2011. The Group's capital position also improved, with the Tier 1 ratio at 10.17% from 9.19% at March 2011. Cash return on equity was 15.0%, a decrease of 10 basis points. The core tier 1 ratio was 8.03%.
- The interim dividend is 90 cents per share fully franked, an increase of 6 cents per share on the prior interim dividend.
- NAB continues to make progress on its corporate responsibility agenda and in March 2012, NAB was named as an Equal Opportunity for Women in the Workplace Agency (EOWA) Employer of Choice for Women for the sixth year in a row.

Executive Commentary

"The Group continues to make progress against its strategic agenda and transform the way it does business," NAB Group Executive Officer, Cameron Clyne, said today.

"The Australian franchise continued to perform well and market share was further strengthened during the period, despite an increasingly competitive environment. Business Banking maintained its position as Australia's leading business lender with a 70 basis point increase in market share reflecting its focus on supporting customers in all market conditions and strong relationship banking model. Personal Banking continued to benefit from its differentiated customer proposition, increasing its market share of home lending by 90 basis points. We have reiterated our commitment to maintain the lowest standard variable rate of the major Australian banks for 2012, and customer satisfaction is now at the highest level in 15 years[4].

"Revenue momentum, sound cost management, and strong capital generation were key features of the Group's half-year performance. This was despite a challenging operating environment characterised by higher funding costs and subdued credit growth across all markets, and particularly difficult economic conditions in the UK.

"Wholesale Banking performed strongly, as momentum from the franchise focused strategy produced higher sales of risk management products to Group customers and Specialised Finance also performed well.

"Despite sluggish investment markets and an increase in insurance lapses, NAB Wealth grew both funds under management and premiums inforce. The business continued to invest in the development of new products and services during the half, releasing a new insurance product, MLC Insurance, and a refresh of MasterKey fundamentals. Adviser numbers grew, with 84 net new advisers joining aligned networks. Costs were tightly managed.

"New Zealand Banking performed strongly, with improved market share across most categories.

"Great Western Bank moved to further strengthen its presence in Iowa, the second largest agricultural producing state in the US.

"SGA risk weighted assets were significantly reduced with the removal of the economic risk on the remaining two Synthetic Collateralised Debt Obligations.

"During the period the Group maintained its focus on balance sheet strength and further improved its capital and funding ratios. Cost growth was managed to below revenue growth in spite of subdued market conditions and the ongoing technology investment program, and the Group remains committed to pursuing sustainable productivity improvements.

"NAB is well positioned to continue to achieve its overall objective of delivering sustainable, satisfactory shareholder returns, despite an uncertain outlook," he said.

4 Roy Morgan Research, Australians 14+

Business Commentary

Business Banking

Cash earnings increased by $83 million or 7.0%, despite higher funding costs and lower demand for credit. Income from sales of risk management products increased, reflecting improvements in cross-sell with Wholesale Banking.

Business Banking retained its position as Australia's leading business lender with a 70 basis points increase in market share[5], reflecting the strength of its relationship focused banking model. Average retail deposits also grew by $10.7 billion or 12.8%.

Net interest margin declined by 1 basis point due to higher funding and deposit costs, partly offset by repricing of the lending portfolio.

Operational efficiencies and effective expense management drove a reduction in expenses of $4 million or 0.5%.

The asset quality of the portfolio was broadly stable and the charge for bad and doubtful debts fell by $13 million or 3.4%.

Personal Banking

Cash earnings increased by $32 million or 7.4% due to strong volume growth over the year and good cost management, despite continued pressure on the net interest margin. The net interest margin decreased by 20 basis points, reflecting increases in funding and deposit costs, and changes in mix, as momentum in home lending continued, although partially offset by repricing.

Over the period Personal Banking continued to increase market share in housing lending[6] and household deposits[7],despite a competitive market. Improving the customer experience remained a key focus and this was reflected in further improvements in customer satisfaction.

The increase in the charge to provide for bad and doubtful debts has been small, despite the growth in home lending volumes, as a result of continued improvements in loan origination quality.

Wholesale Banking

Cash earnings increased strongly by $125 million or 31.8% due to an increase in revenue in both the customer and risk businesses.

All businesses contributed to an increase in revenue, which was up by $222 million or 22.3%, with costs up only 2.0% (costs fell excluding performance based remuneration), demonstrating strong cost management and operational efficiencies. There was improved performance in the customer businesses as the cross-sell agenda continued to gain traction, bringing higher sales of risk management products to Group customers. Specialised Finance performed well in infrastructure, energy and utilities, building on the positive momentum from the prior year. The Capital Markets business provided innovative funding solutions by taking clients direct to global capital markets and, with the Financial Institutions Group, developed a number of innovative deposit products for the Superannuation industry. Risk income also increased, following sluggish performance in the second half of 2011, with improved performances in both Treasury and trading.

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

5 APRA Banking System, as at March 2012
6 RBA Financial System / NAB including Wholesale Banking, as at March 2012
7 APRA Banking System / NAB including Wholesale Banking, as at March 2012

NAB Wealth

Cash earnings before IoRE[8] were down $10 million or 3.7% compared to March 2011, predominantly the result of an increase in insurance lapses. Compared to the September 2011 half, cash earnings before IoRE were 11.1% higher, despite subdued investment markets and a competitive operating environment. Expenses were tightly managed.

Funds under management (FUM) increased by $4.589 billion or 3.9% as a result of acquisitions in the direct funds management business. This was partially offset by lower discretionary flows from retail and wholesale sources, as investors remained cautious. Inforce premiums grew by 4.0% to $1,493 million. Investment margins were stable, with favourable earnings on the annuities portfolio offset by changes in the business mix.

Adviser interest in NAB Wealth's progressive business model remains strong and led to an 8.7% increase in aligned advisors since March 2011. The business continued to develop new products and services over the half including the launch of a new insurance product, MLC Insurance, and the acquisition of the direct funds management business, Antares Capital Partners Limited (formerly known as Aviva Investors Australia Ltd).

New Zealand Banking

Cash earnings increased by NZ$102 million or 36.0% driven by modest margin improvement, increased volumes and a lower charge to provide for bad and doubtful debts.

BNZ increased its market share in key segments including agribusiness[9], while its market share of housing remained stable[10]. The average volumes of retail deposits also grew strongly, rising by NZ$3.1 billion or 10.2%, further strengthening the balance sheet and growing market share by 70 basis points to 18.7%.

Net interest margin improved by 17 basis points to 2.41% largely due to repricing for market conditions and a favourable product mix, reflecting strong growth in the demand for variable rate mortgages.

The charge to provide for bad and doubtful debts was down NZ$61 million or 64.2% to NZ$34 million due to lower specific provisions on business exposures, strong credit card collections, and an overall improvement in asset quality across the lending portfolio as the economic recovery continues.

United Kingdom Banking

UK Banking cash earnings for the first half of the 2012 financial year were a £25 million loss compared to a £77 million profit in the prior corresponding period. UK Banking's performance was adversely affected by a further deterioration in economic and operating conditions in the region and this has had an effect on asset quality. Results were also affected by an increase in the cost of retail and wholesale funding following Clydesdale Bank's credit rating downgrades and reflecting higher retail deposit costs.

The Commercial Real Estate (CRE) portfolio was the main driver of the increased charge to provide for bad and doubtful debts in UK Banking, as a result of renewed weakness in the property market and the prolonged economic downturn.

National Australia Bank announced the outcome of its strategic review into UK Banking on 30 April 2012 in response to the downgrade in growth prospects for the UK economy over the last half year, as the commercial property market experiences a "double dip" and the economic recovery stalls. The restructure will simplify the business model of the UK franchise, bringing it back to its core geographies of Scotland and Northern England and improve its balance sheet structure through the transfer and subsequent run-off of commercial real estate assets. These changes are needed to adapt to the changed

8 Investment earnings on shareholders' retained profits and capital in the life business
9 Reserve Bank of New Zealand data, as at March 2012
10 Reserve Bank of New Zealand data, as at March 2012

operating environment in the UK, and to reposition the UK Banking business to improve returns for the Group over the medium term[11].

Great Western Bank

Great Western Bank (GWB) cash earnings increased by US$3 million or 6.4% over the half as the business continued to generate growth in lending volumes and credit quality improved, lowering the charge for bad and doubtful debts.

Net interest margin declined by 60 basis points due to increased competition and lower yields on investment securities. GWB remains fully deposit funded.

In March 2012 GWB announced the proposed acquisition of First Federal Savings Bank of Iowa, consistent with GWB's strategy to grow through strategically aligned, bolt-on acquisitions. The deal remains subject to the necessary approvals.

Specialised Group Assets

Specialised Group Assets (SGA) cash earnings fell by $80 million, mainly due to lower mark-to-market gains and a higher charge for bad and doubtful debts as a result of rises in specific provisions. Due to the run-off of the business, expenses decreased by $6 million or 25.0%.

The ongoing performance of the portfolio remains closely linked to the state of the UK and US economies.

As announced on 22 March 2012, National Australia Bank removed the economic risk of the remaining two Synthetic Collateralised Debt Obligations, held as part of the portfolio. There has been a reduction in SGA risk weighted assets of $17.3 billion since September 2009, $7.0 billion of which was achieved during the last six months.

Balance Sheet Commentary

Capital

The Group Tier 1 capital ratio of 10.17%, up 98 basis points from March 2011, was consistent with the Group's objective of maintaining a strong balance sheet. The total capital ratio was 11.52%. Balance sheet strength remains a strategic priority for the Group.

Funding and Liquidity

Global wholesale funding market conditions were fragile during the first quarter of the 2012 financial year as the European sovereign debt crisis worsened. While there has been an improvement in market conditions and greater access to funding since then, the market remains vulnerable to further disruptions.

Nevertheless, the Group raised $14.455 billion of term wholesale funding (including secured funding) in the first half of the 2012 financial year. The weighted average maturity of term wholesale funding raised by the Group over the half year to 31 March 2012 was approximately 4.2 years, slightly higher than that of the September 2011 half year of 4.1 years.

The Group maintains well diversified and high quality liquid asset portfolios that are continually reassessed to support regulatory and internal requirements. Total liquid assets held at 31 March 2012 were $90.061 billion.

Group Asset Quality

Asset quality metrics have been slightly stronger than at March 2011. The ratio of 90+ days past due loans to gross loans and acceptances was 0.49% at 31 March 2012, compared to 0.55% at 31 March 2011. Excluding the UK, this ratio was 0.45%, 7 basis points lower than March 2011.

11 Details of the outcomes of the UK Banking strategic review are included in the ASX Announcement dated 30 April 2012

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Disclaimer

This announcement contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Annual Financial Report.

Note on Cash Earnings

The Group's results and Review of Divisional Operations and Results are presented on a cash earnings basis unless otherwise stated. Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. A definition of cash earnings is set out on page 150 of the 2012 Half 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 March 2012 half year is included on pages 22 and 141 of the 2012 Half Year Results Announcement. The Group's financial statements, prepared in accordance with the *Corporations Act* 2001 (Cth) and Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in section 5 of the 2012 Half Year Results Announcement.