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ASX ANNOUNCEMENT

Thursday, 31 October 2013

NAB 2013 Full Year Results

Improved result benefiting from lower loan losses

Key Points

Results for the 30 September 2013 full year are compared with 30 September 2012 full year unless otherwise stated.

- On a statutory basis, net profit attributable to owners of the Company was $5.45 billion, an increase of $1.4 billion or 33.6% on the September 2012 year.
- Cash earnings[1] were $5.94 billion, an increase of $503 million or 9.3% on the September 2012 full year, due to higher earnings from all banking businesses. The difference between net profit attributable to owners of the Company and cash earnings was primarily due to fair value and hedge ineffectiveness, the effects of adjusting for treasury shares and a $163 million (post-tax) provision raised for costs associated with UK payment protection insurance (PPI).
- On a cash earnings basis:
  - Revenue increased by 2.0%, driven by growth in housing lending in both Personal Banking and NZ Banking, as well as higher income in Wholesale Banking benefiting from improved customer sales. Group net interest margin (NIM) was 2.02%, 9 basis points lower than in the September 2012 full year, and down 3 basis points excluding Markets and Treasury, in part reflecting the impact of lower cash rates.
  - Operating expenses increased by 4.4% but included Australian restructuring costs associated with the move to a new operating model, and additional charges for UK conduct-related matters other than PPI. Excluding Australian restructuring costs and the impact of foreign exchange movements during the period, operating expenses growth was well contained at 1.9%.
  - The total charge to provide for bad and doubtful debts (B&DDs) for the September 2013 year was $1,934 million, a reduction of $681 million (or $431 million excluding the $250 million economic cycle adjustment taken in September 2012), reflecting improved asset quality trends, particularly in the UK businesses and Business Banking.
- The Group maintains a well diversified funding profile and has raised $25.8 billion of term wholesale funding (including secured funding) in the 2013 financial year. The weighted average maturity of term wholesale funding raised by the Group over the 2013 year was approximately 4.8 years. The stable funding index was 89% at 30 September 2013, a 3 percentage points increase on September 2012, largely due to strong deposit growth and subdued credit growth.
- The Group's Basel III Common Equity Tier 1 (CET1) ratio was 8.43% as at 30 September 2013, an increase of 53 basis points against the pro-forma CET 1 ratio as at 30 September 2012 and an increase of 21 basis points from 31 March 2013[2]. The

1 Cash earnings is not a statutory financial measure and does not represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. Refer to the note on cash earnings on page 4 of this ASX Announcement.
2 The Group commenced calculating capital on a Basel III basis on 1 January 2013.

Group targets a CET1 ratio of above 7.5% and looks to operate at a buffer to this target.

- The final dividend has been increased by 7 cents to 97 cents, fully franked. The dividend reinvestment plan (DRP) discount remains nil, with no participation limit, and NAB intends to arrange for the acquisition of shares on market to satisfy its obligations under the DRP and fully neutralise its otherwise dilutive impact.

Executive Commentary

"The Group's full year results show an improved performance across most business units, combined with solid progress against our simplification and digitisation agenda," National Australia Bank CEO, Cameron Clyne, said today.

"Some improvement in the UK operating environment and initiatives to reduce the Australian risk profile have supported a lower charge for B&DDs. Costs, excluding Australian restructuring and UK conduct-related costs, have been well contained, reflecting our ongoing focus on efficiency gains.

"Enhancing the Australian franchise remains a strategic priority, with further progress made during the year. Personal Banking again produced a strong result on the back of good momentum in housing lending and increased customer deposits.

"Wholesale Banking also performed well with solid earnings growth as it continues to build successfully on its franchise focus strategy. Despite subdued business conditions, Business Banking grew earnings through improved asset quality and maintained its leading market share in business lending. Results for NAB Wealth were mixed, with insurance industry conditions still challenging, while funds management benefited from more favourable equity markets and positive net flows.

"Internationally, NZ Banking and Great Western Bank had good performances and continued to grow earnings.

"Further progress against the UK restructuring agenda, combined with some improvement in the UK economic environment, has supported a better operating performance from the UK businesses, particularly in terms of lower B&DDs. Pleasingly the run-off of our NAB UK CRE book has continued and it now stands at £4.0 billion gross, £1.6 billion lower than when the portfolio was transferred to National Australia Bank Ltd in October 2012."

"Over the year, we've continued to simplify and digitise our Australian franchise. Since 2010 we've rationalised approximately 50% of our core banking products, and automated and simplified a number of processes so that bankers can spend more time with customers.

"Our enterprise-wide technology and infrastructure transformation is making good progress on a number of fronts. The upgrade of our core banking platform is tracking well with the launch of the first transaction product on the NextGen platform - UBank USaver Ultra - which offers a fully automated online application process.

"In addition, NAB has made significant structural changes to align our organisation to the external environment and evolving customer behaviours. As a result, we are making it easier for our customers and our people to do business with us", he said.

Business Commentary

Business Banking cash earnings were $2.5 billion, an increase of 3.3% on the September 2012 full year, mainly due to a reduction in the charge for B&DDs. Business Banking maintained its leading market share in business lending[3] and grew average customer deposits. Asset quality metrics for the portfolio have improved relative to both March 2013 and September 2012.

3 APRA Banking System, as at August 2013.

Personal Banking delivered a strong result, with cash earnings of $1.2 billion representing a 17.5% increase on the September 2012 full year and higher market share in housing lending. Above system growth in housing lending[4] and improved margins were the main drivers of cash earnings growth.

Wholesale Banking cash earnings increased by 9.3% on the September 2012 full year to $1.2 billion. This increase was mainly due to higher revenue and lower B&DDs. Customer income continued to grow despite subdued market conditions, with higher sales of risk management products reflecting the success of the Group's franchise focus strategy. Specialised Finance delivered a strong result, with increased deal flow in both Infrastructure, and Energy & Utilities.

NAB Wealth cash earnings before IoRE[5] and non-controlling interests decreased by 5% on the 30 September 2012 full year to $493 million. Earnings on Investments and Private Wealth increased, reflecting higher funds under management and lower funding costs. These were more than offset by the challenging conditions in the insurance industry. The Insurance business reported deteriorating claims experience during the year. Insurance reserves have been strengthened at September 2013, reflecting a change in actuarial assumptions, which has affected the result by $57 million (pre-tax). Inforce premiums as at September 2013 grew by 5.8% over the year.

NZ Banking cash earnings increased by 6.3% on the September 2012 full year to NZ$788 million driven by improved revenue, and supported by good lending and deposit growth. Customer deposits grew strongly on the prior year, up 11.6% taking the bank's market share to 19.3%. Business lending volumes grew by NZ$1.6 billion with an increase in Agribusiness market share to 22.0%[6].

UK Banking second half cash earnings increased to £55 million up 34% compared to the first half, despite higher conduct-related charges during the half. The increase in cash earnings was largely due to a reduction in the charge for B&DDs, as a result of lower business lending losses, reflecting improved asset quality and a reduction in the size of the portfolio. NIM increased by 13 basis points largely due to an improved retail deposit mix and the impact of the Financial Services Compensation Scheme levy booked in the first half.

NAB UK CRE business reported a second half cash earnings loss of £90 million compared to a loss of £149 million in the first half. The charge for B&DDs decreased from £185 million at the March half to £119 million, reflecting both a reduction in impaired assets as the portfolio continues to run-off and recent stabilisation in commercial property valuations. The transferred portfolio has contracted from £5.6 billion at October 2012 to £4.0 billion gross at September 2013; £3.5 billion net of provisions.

Great Western Bank (GWB) cash earnings increased by 13% to US$113 million compared to the September 2012 year, as gross loans increased and customer deposits grew. GWB remains fully deposit funded.

Group Asset Quality Commentary

Asset quality metrics improved over the period, both in Australia and in the United Kingdom. The Group ratio of 90+ days past due and gross impaired assets to gross loans and acceptances of 1.69% at 30 September 2013 was a decrease of 9 basis points compared to September 2012, and a decrease of 5 basis points compared to March 2013. Watch loans also improved, down 15% on the September 2012 full year[7]. The ratio of collective provision to credit risk-weighted assets was 0.94% under the new Basel III risk weighted assets definition, compared to 0.99% at March 2013. The reduction in the ratio is the result of

4 RBA Financial System / NAB, as at August 2013.
5 Investment earnings on shareholders' retained profits and capital in the life business, net of capital funding costs.
6 Reserve Bank of New Zealand data, as at August 2013.
7 Watch loans are an internal measure of higher risk exposures that are not in default.

several factors including improved asset quality across the non-retail portfolio, lending growth in retail mortgages that attract a lower collective provision, and the continual run off in the NAB UK CRE and SGA portfolios.

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Disclaimer

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

Note on Cash Earnings

Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners is set out on pages 2 to 8 of the 2013 Full Year Results Announcement under the heading "Profit Reconciliation".

The Group's results and Review of Divisional Operations and Results are presented on a cash earnings basis, unless otherwise stated. Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. Section 5 of the 2013 Full Year Results includes the Consolidated Income Statement of the Group, including statutory net profit. The Group's audited financial statements, prepared in accordance with the *Corporations Act* 2001 (Cth) and Australian Accounting Standards, will be published in its 2013 Annual Financial Report on 18 November 2013.