National Australia Bank

National Australia Bank Limited
ABN 12 004 044 937

800 Bourke Street
Docklands Victoria 3008
AUSTRALIA

www.nabgroup.com

ASX ANNOUNCEMENT

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NAB 2011 Half Year Results
Good result as progress on strategic priorities builds momentum

Key Points

- Cash earnings for the 2011 half year were $2.7 billion, a 21.7% increase on the March 2010 half year[1]. This was mainly attributable to market share gains and disciplined margin and cost management in the Australian bank, combined with improved asset quality and a stronger performance in Specialised Group Assets (SGA).
- Revenue increased by 6.8% as a result of disciplined margin management in Business Banking, strong growth in home lending in Personal Banking and a swing from mark-to-market losses to a gain of $59 million in SGA.
- The Group charge for bad and doubtful debts fell by 19.7% to $988 million. Total provisions include two overlays for potential credit losses arising from natural disasters being a $75 million overlay for recent Australian natural disaster events, and $44 million (NZ$60 million) as a result of the dual earthquake events in New Zealand.
- Expenses increased by 3.4% to $4.0 billion primarily due to investments in frontline staff to support business growth strategies and infrastructure transformation, including the NextGen bank replatforming project. Expense growth was half that of revenue.
- The Group Tier 1 ratio increased from 8.91% to 9.19%. ROE was 15.1%, an increase of 160 basis points from the September 2010 half year.
- Strong funding and liquidity positions were maintained. During the half year to March 2011, the Group has raised $16.7 billion of term wholesale funding against a full year 2011 target range of $25 billion to $30 billion.
- Statutory net profit for the March 2011 half year increased by 15.9% to $2.4 billion compared to the March 2010 half year.
- Interim dividend is 84 cents per share fully franked, an increase of 10 cents per share on the March 2010 interim dividend.
- NAB continued to actively support the communities in which it operates through initiatives including microfinance, support for schools and education, and targeted social inclusion programs. NAB's response to the recent natural disasters was extensive and is ongoing. The Group established an assistance fund of up to $15 million, Business Banking pledged an initial $4 billion in lending to be available to help Queensland businesses rebuild, and further contributions and donations were made to support NAB's people and customers.

[1] 2011 half year results are compared with 2010 half year results unless otherwise stated.

Overview

"Improved shareholder returns, continued progress against strategic priorities and further consolidation of NAB's positive differentiation from peers were key achievements for the period," NAB Group Chief Executive Officer Cameron Clyne said today.

"Business Banking recorded solid first half earnings, further increasing its leading market share in business lending, achieving asset growth and improving margins. NAB has been a consistent supporter of Australian businesses achieving growth while the overall lending to businesses has reduced by $12.8 billion since March 2010[2].

"More than 80% of business bankers and senior leaders have now completed the Customer-led Innovation Strategy program, designed to deepen customer relationships and improve share of wallet, representing a significant investment in the future success of this franchise.

"Personal Banking recorded strong growth across mortgages, deposits, transaction accounts and credit cards. The gap between NAB and competitor customer satisfaction further narrowed, from 2.5% in September 2010 to 1.0% in March 2011[3], as customers continued to respond strongly to NAB's differentiated customer proposition.

"MLC & NAB Wealth grew its financial adviser numbers by 241, progressed the integration of Aviva, and now has a portfolio of interests in 10 boutique investment management firms through nabInvest. Investment markets were subjected to a series of shocks and investor sentiment remains cautious.

"Wholesale Banking continued to strengthen its franchise focused strategy despite low business activity and reduced volatility in markets. Co-location of more Global Markets specialists in Business Banking Centres advanced the cross-sell focus. Specialised Finance and Global Capital Markets were areas of strength.

"NZ Banking maintained its track record of good performance despite subdued economic activity, and of innovation in products and services. Market share grew in retail deposits and both housing and agribusiness lending[4].

"UK Banking performed soundly despite the weak British economy. Cash earnings increased, driven in part by a lower charge for bad and doubtful debts. Growth in mortgage and business lending, as well as retail deposits, outperformed market benchmarks[5].

"GWB has more than trebled agribusiness lending since it was acquired, remains fully deposit funded, and the integration of acquisitions made in 2010 has progressed well.

"Specialised Group Assets recently negated the risk of three of the six Synthetic Collateralised Debt Obligations (SCDO), releasing capital in the process.

"At a Group level a strong balance sheet was maintained, costs were managed well within revenue growth, and initiatives aimed at anticipating regulatory, political and consumer trends and improving reputation supported strong momentum in our Australian banking businesses. Further sustainable improvement in NAB's shareholder returns remains the core focus of our strategic agenda," he said.

Business Unit Commentary

Business Banking

Cash earnings increased by 7.9% to $1.2 billion with the key driver being underlying profit growth of 6.2%. NAB retained the leading market share in business lending, which

[2] APRA Monthly Banking Statistics – March 2011 compared with March 2010
[3] 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 and WBC)
[4] RBNZ – March 2011 (historical market share restated with latest revised RBNZ published data, excluding some deposits by business banking customers captured in money market deposits)
[5] Bank of England data (February 2011 for mortgages and retail deposits, December 2010 for business lending)

improved to 23.8%. Lending growth in the SME and specialised business segments provided an important contribution to market share. Average retail deposits were up by $6.7 billion or 8.7%.

Net interest margin increased by 6 basis points to 2.57% as a result of repricing for current market conditions, partly offset by higher funding and deposit costs and heightened competition.

Expenses were 4.3% higher primarily due to ongoing investment in banker capabilities and putting more bankers in more places.

Supporting customers under all market conditions provided a solid foundation for continued business banking growth despite the challenging operating environment, subdued demand for business credit and intense competition from domestic banks.

Personal Banking

Cash earnings increased 36.3% to $432 million due to substantially higher home lending volumes and a reduced charge for bad and doubtful debts.

Market share lifted significantly for home lending[6] and household deposits[7] against a backdrop of consumer caution due to the Reserve Bank of Australia increases to official cash rates. Improved mortgage and savings products have won several industry awards and leave NAB well positioned to benefit from the more competitive environment in retail banking.

Net interest margin decreased by 12 basis points to 2.22% reflecting product mix change as a result of strong growth in home lending, higher funding costs and increased competition for deposits.

Average interest earning assets increased by 18.7% as all channels increased mortgage sales. Average retail deposits rose by 15.2% with a solid contribution from the traditional banking network, supported by the UBank online savings account recording strong growth.

Expenses were up 6.8% driven in part by the addition of frontline employees to improve customer service.

MLC & NAB Wealth

Cash earnings before IoRE[8] and non-controlling interest increased 2.3% to $270 million. The main contributors were net interest income, investment performance and growth in average inforce premiums.

Funds under management (FUM) as at March 31 was 6.8% higher at $121.9 billion reflecting improvement in equity markets, partly offset by negative discretionary investment flows as investor sentiment remained cautious. Inforce premiums increased 7.7% to $1.4 billion.

Revenue was up 4.5% reflecting higher FUM, albeit at lower margins, and higher premiums inforce. Claims experience for individual disability and lump sum was unfavourable, partially offset by lower claims for group business.

Expenses rose 3.7% due to the inclusion of a full half year of expenses from JBWere compared to five months in the March 2010 half year and continued investment in salaried advisers and private bankers, partially offset by synergies from the integration of Aviva.

Wholesale Banking

Cash earnings decreased 2.5% to $393 million primarily due to the lower revenues from Global Markets due to low volatility and subdued economic activity, particularly in New Zealand and the United Kingdom. These factors were partially offset by a lower charge for bad and doubtful debts.

Revenue was down 3.5% to $997 million, although foreign exchange movements accounted for the majority of the fall. Operating expenses increased by 2.0% reflecting investments to

[6] RBA Financial System/NAB including Wholesale Banking
[7] APRA Banking System/NAB including Wholesale Banking
[8] Investment earnings on shareholders' retained profits and capital in the life business

develop improved products and services, attract more customers and improve speed to market.

Wholesale Banking's strategic focus on applying its strengths to deepen relationships with NAB's customer base was supported by co-locating more Global Markets product specialists in Business Banking Centres resulting in increased cross-sell and development of new clients.

NAB was mandated lead arranger on a number of significant deals in 2010 and has received several industry awards for projects including Collgar Wind Farm and High Speed Rail 1. NAB is also the highest ranked Australian Bank in the United States private placement market[9].

UK Banking

Cash earnings increased by 26.2% to £77 million largely as a result of a lower charge to provide for bad and doubtful debts.

Average business and mortgage lending volumes remained relatively flat and outperformed the market. This was mainly due to subdued demand for credit and managed rebalancing of the lending book, which included a fall in exposure to both commercial property lending and unsecured personal lending offset by growth in mortgage lending of 4%. UK Banking demonstrated continued support to customers with new lending of £3.3 billion.

Operating expenses increased by 2.8%, lower than inflation, and reflected higher personnel costs which included investment to better serve customers.

Overall asset quality indicators remained broadly stable. Gross impaired asset balances continued to increase reflecting ongoing difficult economic and market conditions. The UK economy remains challenging and a cautious outlook for the remainder of the year is warranted.

NZ Banking

Cash earnings increased by 11.0% to NZ$283 million reflecting robust underlying profit growth of 10.5% and margin improvement due to repricing for current market conditions and increased demand for variable rate housing products. Lending volume growth was modest in light of a subdued housing market and weak demand for business credit.

Customer deposits grew 9.7% and market share for retail deposits rose by 60 basis points to 18.1%.

Investment in the business continued with ongoing transformation of the Retail store and Partners network. To date, 41 new Retail stores and 16 Partner centres have been completed. In addition NZ Banking launched Invoice Finance, an online solution providing business customers with access to cash flow through financing on approved invoices. This is the first of its kind for a New Zealand bank.

New Zealand is continuing its slow economic recovery from the recent recession although the earthquakes in Christchurch have slowed the rate of recovery. The earthquakes provision includes an amount taken during the prior financial year as a result of the first earthquake.

Great Western Bank

Cash earnings grew by 56.7% to US$47 million due to a strong increase in underlying profit driven by the full six month integration of acquisitions and continued organic growth.

Lending remained fully deposit funded. The ratio of retail deposits to gross loans and acceptances was 129% at 31 March 2011.

The charge to provide for bad and doubtful debts was up US$14 million to US$32 million. The 90+ DPD plus gross impaired assets to gross loans and acceptances rose to 5.65%. Excluding the loans from the acquisition of the TierOne portfolio covered by the FDIC loss sharing arrangement[10], the level was 2.37%. In the GWB footprint, overall consumer

[9] Thomson Reuters
[10] As announced on 5 June 2010 as part of the acquisition of the TierOne portfolio

demand and confidence remains subdued but GWB has maintained asset quality that is better than the national average[11].

Specialised Group Assets
Cash earnings improved by $294 million to $77 million primarily as a result of mark-to-market gains on the SCDO risk mitigation trades and a lower bad and doubtful debts charge.

Although this demonstrated a strong improvement, the ongoing performance of the portfolio is highly dependent on economic performance in the United Kingdom and United States and financial results remain sensitive to market conditions.

Management continue to explore opportunities to reduce the risk in the SCDO portfolio. Consistent with this, after 31 March 2011, transactions were entered into to remove the economic risk of the three SCDO assets which have the shortest duration. The accounting loss arising on these transactions was $17 million ($9 million after tax) and risk weighted assets were reduced by $2 billion.

As disclosed in 2008, the Group has expensed over the life of the SCDO assets ongoing hedging costs to mitigate the risk of this portfolio. Should an opportunity arise to exit the economic risk relating to the three remaining SCDO assets (which would reduce risk weighted assets by approximately a further $2 billion), the Group would accelerate the remaining recognition of the cost of hedging by expensing the carrying value of these hedge costs which at 31 March 2011 was $360 million. This expense would be included in non-cash earnings. Any additional losses/expenses that arise in relation to the exit of the economic risk of the SCDO assets would be applied against the existing $160 million management overlay for conduits and derivatives.

Balance Sheet Commentary

Capital
The Group Tier 1 capital ratio was 9.19%, up 28 basis points on September 2010. The improved capital position was primarily due to surplus capital generation and is consistent with the Group's objective of maintaining a strong capital position.

Funding and Liquidity
The global term funding environment remained largely stable in the March 2011 half year, despite periods of volatility driven by political unrest in the Middle East and a number of natural disasters.

The Group raised $16.7 billion of term wholesale funding in the March 2011 half year. This represents over half of the Group's 2011 funding target of $25 to $30 billion. The weighted average maturity of wholesale funding raised during the half was approximately 4.8 years.

NAB remained well positioned with total liquid assets of $72 billion, in line with the position at 30 September 2010.

Asset Quality
Since September 2010 asset quality trends remained broadly unchanged.

In Australia, the global financial crisis continued to have a lagged effect on the Business Banking portfolio, although the bad and doubtful debt charge declined during the period due to a falling incidence of large specific provisions. In Personal Banking the charge for bad and doubtful debts increased mainly due to credit cards, although aggregate asset quality metrics improved.

In New Zealand there are continued signs that asset quality is stabilising. The increase in gross impaired assets was primarily due to a small number of business exposures.

The UK market remains challenging for both trading and property businesses. Although overall asset quality indicators have remained broadly stable and the rebalancing of the lending portfolio has continued, the increase in gross impaired asset balances reflects the ongoing difficult conditions.

[11] FDIC data December 2010

Asset quality indicators for Great Western Bank, excluding the TierOne loans covered by the FDIC loss sharing arrangement, weakened primarily due a small number of commercial exposures.

The SGA portfolio stabilised during the March 2011 half year, which assisted the reduction of the charge to provide for bad and doubtful debts from $95 million in September 2010 half year to $21 million at 31 March 2011.

The Group's total provisions continued to trend down, reflecting the improved economic and market conditions and the strengthening of the Australian dollar.

For further information:

Media

George Wright
M: +61 (0) 419 556 616

Meaghan Telford
M: +61 (0) 457 551 211

Investor Relations

Nehemiah Richardson
M: +61 (0) 427 513 233

Craig Horlin
M: +61 (0) 417 372 474

Karen Cush
M: +61 (0) 404 881 517