



Thursday, 4 May 2017

## ASX Announcement

# NAB 2017 Half Year Results

### Highlights

- Cash earnings<sup>1</sup> of \$3.29 billion, up 2.3% compared to March 2016 half year
- Statutory net profit of \$2.55 billion
- Interim dividend unchanged at 99 cents per share fully franked
- Cash ROE of 14.0%
- CET1 ratio of 10.1%, an increase of 34 basis points compared to September 2016

### Key points

The March 2017 half year results are compared with the March 2016 half year results for continuing operations unless otherwise stated, and reflect revisions to prior comparative financial information as detailed in NAB's ASX announcement on 20 April 2017.

- On a statutory basis, net profit attributable to the owners of NAB was \$2.55 billion compared to a loss of \$1.74 billion for the March 2016 half year. The improved result primarily reflects reduced losses from discontinued operations<sup>2</sup>. Excluding discontinued operations<sup>2</sup>, statutory net profit decreased 11.4%.
- Cash earnings<sup>1</sup> were \$3.29 billion, an increase of 2.3%. The main difference between statutory and cash earnings relates to the effects of fair value and hedge ineffectiveness, and discontinued operations.
- On a cash earnings basis:
  - Revenue increased 1.8% benefitting from growth in lending, improved fee collection and stronger trading income. Group net interest margin (NIM) declined 11 basis points but excluding Markets and Treasury was down 4 basis points. Compared to the September 2016 half year NIM was stable.
  - Expenses rose 0.8% reflecting higher personnel costs including redundancy charges, and increased technology depreciation and amortisation charges, partly offset by productivity savings.
  - The total charge for Bad and Doubtful Debts (B&DDs) was \$394 million, up \$19 million or 5.1%. The charge this period includes an increase in collective provision (CP) overlays of \$89 million mainly for potential risks relating to the commercial real estate (CRE) portfolio. The Group's total CP overlays for CRE, agriculture, mining and mining related sectors now stand at \$291 million.
- The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances of 0.85% at 31 March 2017 was stable compared to 30 September 2016.

<sup>1</sup> Refer to note on cash earnings on page 4 of this document.

<sup>2</sup> Included within discontinued operations for the March 2017 half year are the provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG and a loss on the completion of the sale of certain UK commercial real estate loans. The comparative information for discontinued operations also includes the post-tax (loss)/profit of both the sale of 80% of Wealth's life insurance business and the CYBG demerger and IPO. Refer to Notes 14 and 15 of the 2017 Half Year Results Announcement for further details.

- The Group's Common Equity Tier 1 (CET1) ratio was 10.1% as at 31 March 2017, an increase of 34 basis points from 30 September 2016. The Group's CET1 target ratio remains between 8.75% – 9.25%. On an internationally comparable basis<sup>3</sup> the CET1 ratio increased 51 basis points from 30 September 2016 to 14.5%.
- The interim dividend is 99 cents per share fully franked, unchanged from the 2016 interim and final dividends.
- The Group maintains a well diversified funding profile and raised \$18.8 billion of term wholesale funding in the March 2017 half year across a range of markets. The weighted average term to maturity of the funds raised by the Group over the March 2017 half year was 5.4 years. The net stable funding ratio (NSFR) was 108% at 31 March 2017.
- The Group's leverage ratio as at 31 March 2017 was 5.5% on an APRA basis and 5.9% on an internationally comparable basis<sup>4</sup>.
- The Group's quarterly average liquidity coverage ratio as at 31 March 2017 was 122%.

### Business Unit Commentary

NAB previously announced changes to its organisational structure as well as its Executive Leadership team effective from 1 August 2016. As a result of these announcements, the Group has changed its reporting to align to customer segments. This change has resulted in three new Australian reportable segments – Business & Private Banking, Consumer Banking & Wealth, and Corporate & Institutional Banking.

- Business & Private Banking grew cash earnings 2.5% to \$1,368 million reflecting sound revenue growth and tight cost management, partly offset by higher B&DD charges. NIM improved and lending growth in specialised businesses such as Health and Agribusiness was strong.
- Consumer Banking & Wealth cash earnings were stable at \$764 million impacted by higher funding costs, increased competition in home lending, and reduced Wealth income. NIM stabilised compared to the September 2016 half year and more recent home lending market share trends are improving.
- Corporate & Institutional Banking (CIB) cash earnings rose 17.9% to \$791 million. This was a strong result underpinned by a disciplined focus on returns. Over the year to March 2017 CIB delivered revenue growth, lower costs, lower B&DD charges and a \$15 billion reduction in risk weighted assets.
- NZ Banking local currency cash earnings increased 10.4% to NZ\$455 million. Improved economic conditions, and in particular a better outlook for the dairy sector, have resulted in lower B&DD charges. Strong growth in business and home lending reflect successful expansion in priority segments.

<sup>3</sup> Internationally Comparable CET1 ratio at 31 March 2017 aligns with the APRA study entitled "International Capital Comparison Study" released on 13 July 2015.

<sup>4</sup> Leverage ratio calculated using an Internationally Comparable Tier 1 capital measure, including transitional relief for non-Basel III compliant instruments and aligns with the APRA study as per footnote 3.

## Executive Commentary

“This is another solid result and reflects improving momentum as we execute on our strategy,” NAB Group CEO Andrew Thorburn said.

“Revenue is up, our asset quality remains sound and we have further strengthened our funding and capital positions. Cost growth has moderated from 2017 first quarter levels as our productivity initiatives gain traction. Our ROE of 14% reflects our disciplined approach to capital allocation.

“There have been solid contributions across the business, in particular our priority segments of small and medium business where we have maintained or grown our leading market shares.

“We continue to invest in creating a truly customer centric culture at NAB, but we know we must do better to achieve a level of advocacy among customers that we can be proud of.

“The rollout of the Net Promoter Score (NPS)<sup>5</sup> system to all our front line teams is an important tool that helps bankers take greater ownership of the customer experience. Every branch, contact centre and business banking centre now receives localised weekly scores and real time customer feedback resulting in improved customer outcomes on our front line.

“Technology underpins our ability to serve customers better by becoming easier and simpler to deal with. Over the half we have made further progress embedding the Personal Banking Origination Platform (PBOP) into our network. Approximately 55% of customers are now receiving unconditional home loan approval within 5 days compared to 7% at September 2016.

“Disciplines in place to reshape our business, including use of automation and meeting more of our customers’ needs digitally, are delivering efficiency benefits. In 1H17 we achieved \$102 million of productivity savings against an annual target of greater than \$200 million. We remain confident of achieving positive ‘jaws’ over the full year as a number of initiatives gain further traction during the second half of 2017.

“The operating environment for banks remains challenging, including heightened regulatory change, digital disruption and increasing stakeholder expectations. But Australia’s economic fundamentals provide a favourable backdrop including strong population growth and improving business conditions.

“In this environment we are well placed to deliver for our customers and our shareholders,” Mr Thorburn said.

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<sup>5</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

## DISCLAIMER – FORWARD LOOKING STATEMENTS

This announcement contains statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. 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

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| 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 of NAB for the half year ended 31 March 2017 is set out on pages 2 to 7 of the 2017 Half Year Results Announcement under the heading "Profit Reconciliation". |
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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, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding discontinued operations and certain other items which are included within the statutory net profit attributable to owners of NAB. 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 2017 Half Year Results Announcement.