

**ASX ANNOUNCEMENT***Friday, 21 February 2014***NAB 2014 First Quarter Trading Update****Solid performance benefitting from improved asset quality**Key Points

The quarterly average of the September 2013 Half Year results is used for comparison purposes unless otherwise stated.

- Unaudited cash earnings<sup>1</sup> rose to approximately \$1.55 billion, which is 7% up on the prior corresponding period and around 2% above the quarterly average of the September 2013 Half Year result. On a statutory basis, unaudited net profit attributable to the owners of the Company for the December quarter was approximately \$1.4 billion. The main difference between statutory and cash earnings relates to the elimination of treasury shares, coupled with the effects of fair value and hedge ineffectiveness.
- On a cash earnings basis:
  - Revenue increased by approximately 1%. Higher lending balances were partly offset by a lower customer margin<sup>2</sup> reflecting increased asset competition. At a headline level net interest margin was further impacted by higher holdings of liquid assets and the effect of falling interest rates on capital.
  - Expenses rose 3% over the period, but excluding the impact of movements in foreign exchange rates, increased approximately 1%. The main drivers of the rise include inflation-related salary increases, normalisation of performance based incentives and increased depreciation and amortisation charges.
  - The charge for bad and doubtful debts (B&DDs) for the quarter was \$324 million, down 23% due primarily to lower charges in Australian Banking<sup>3</sup> and in the UK businesses.
- For the financial year to date, the Group has raised approximately \$10.1 billion of term wholesale funding (including approximately \$1.6 billion of secured funding). The weighted average term to maturity of the funds raised by the Group for the financial year to date was 5.3 years. Over the quarter, the Group funded all loan growth with customer deposits.
- The Group's Basel III Common Equity Tier 1 ratio was 8.21% as at 31 December 2013, lower than the ratio at 30 September 2013 mainly due to the impact of the final 2013 dividend declaration. During the quarter NAB purchased shares on-market to fully neutralise shares issued under the Dividend Reinvestment Plan.

<sup>1</sup> Refer to note on cash earnings on page 3 of this document.

<sup>2</sup> Customer margin comprises the following components of net interest margin: lending margin, deposits, funding and liquidity costs and liability mix. It excludes lending mix and other components of net interest margin.

<sup>3</sup> Consistent with the changes to NAB's operating model announced on 13 March 2013, results for Personal Banking, Business Banking and Wholesale Banking have been consolidated into Australian Banking results. Australian Banking cash earnings also include results for Private Wealth which previously formed part of NAB Wealth cash earnings. Prior period comparatives have been restated to reflect these changes.

## Executive Commentary

“The Group achieved a solid first quarter result, with a continuation of the trends evident in the 2H13 result, including further improvement in asset quality and good growth in mortgages,” National Australia Bank Group CEO, Cameron Clyne said today.

“We continue to make progress on our refreshed Group strategic agenda announced on 13 March 2013. Our new operating structure has now been implemented and for the first time this quarter we are able to report our results in line with that structure. The model aligns our organisation to the external environment and evolving customer behaviours. We have continued to develop initiatives that increase our frontline employees’ time with our customers. One example during the period was the centralisation of the middle office operations of 60 Business Banking Centres into seven business credit fulfilment centres, enabling our business bankers to spend more time with customers.

“Our Fair Value agenda, now in its fifth year, continues to resonate with customers, with market share growth in both mortgages and household deposits over the quarter. While recent improvements in business confidence and conditions are encouraging, we are yet to see this translate into a meaningful increase in demand for business credit, and competition in this space remains elevated.

“Particularly pleasing was the further improvement in the performance of UK Banking and the NAB UK Commercial Real Estate (CRE) run-off portfolio. Both continue to benefit from the restructure we undertook in 2012 and the recovery of the UK economy,” he said.

## Business Commentary

Australian Banking<sup>3</sup> cash earnings were broadly stable over the quarter with good growth in mortgage lending and continued decline in B&DD charges offset by lower margins and higher costs. Business lending balances<sup>4</sup>, excluding Asia, were slightly lower over the period.

NAB Wealth cash earnings<sup>5</sup> including IoRE<sup>6</sup> improved over the quarter. Insurance earnings were higher, benefitting from the non-recurrence of actuarial assumption changes in 2H13. Stronger market performance drove improved Investment earnings and 13% annualised growth in funds under management.

NZ Banking local currency cash earnings were broadly flat over the quarter. Growth in business lending and stable margins was largely offset by higher expenses. B&DD charges were flat, while asset quality indicators improved.

UK Banking cash earnings improved in the quarter driven mainly by lower costs and a lower charge for B&DDs. Asset quality continues to improve. While UK customer redress costs were negligible in the quarter there remains a wide range of uncertain factors relevant to determining the total costs associated with conduct related matters. Regulators continue to take an active stance in our management of customer claims, including for payment protection insurance and interest rate hedging products. There has also been an increase in the level of complaints and settlements relating to some tailored business loans.

Accordingly, the risk that additional provisions will be required for UK conduct related matters has increased since the 2013 Full Year Results and a full assessment of related provisions will be made in the normal course of business as part of the finalisation of the 31 March 2014 half year accounts.

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<sup>4</sup> Business lending balances exclude Specialised Finance, Debt Markets and other wholesale lending.

<sup>5</sup> Results for Private Wealth now form part of Australian Banking under the revised operating structure announced on 13 March 2013. These results previously formed part of NAB Wealth cash earnings. Prior period comparatives have been restated to reflect these changes.

<sup>6</sup> Investment earnings on shareholders’ retained profits.

Cash earnings in the NAB UK CRE run-off portfolio improved in the quarter, reflecting the need for fewer provision top ups to existing impaired exposures and a continuing slowdown in the emergence of new impaired loans. The NAB UK CRE overlay balance was unchanged at £99m. The portfolio continues to decline with the balance reducing over the quarter from £4.0 billion to £3.6 billion. Net of provisions, the outstanding balance is now £3.1 billion.

Great Western Bank cash earnings were higher over the quarter benefiting from lower expenses and a lower charge for B&DDs. The business remains fully deposit funded and asset quality indicators have improved.

#### Group Asset Quality

Group asset quality metrics improved over the quarter. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was 1.58% at 31 December 2013 compared to 1.69% at 30 September 2013.

The ratio of collective provision to credit risk weighted assets was 0.95% at 31 December 2013, compared to 0.94% at 30 September 2013. The ratio of specific provision to impaired assets was 34.4% at 31 December 2013 as compared to 32.0% at 30 September 2013.

For further information:

#### **Media**

Brian Walsh  
M: +61 (0) 411 227 585

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

#### **Investor Relations**

Ross Brown  
M: +61 (0) 477 302 010

Natalie Coombe  
M: +61 (0) 477 327 540

#### **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 for the full year ended 30 September 2013 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, were published in its 2013 Annual Financial Result on 18 November 2013.