National Australia Bank

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ASX ANNOUNCEMENT

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NAB 2012 Full Year Results

Result reflects strong core business performance and challenges in the UK

Key Points

Results for the 30 September 2012 full year are compared with 30 September 2011 full year unless otherwise stated.

- On a statutory basis, net profit attributable to the owners of the Company decreased by $1.1 billion or 21.8% to $4.1 billion against the September 2011 full year.
- Cash earnings[1] fell by $27 million or 0.5% on the September 2011 year to $5.4 billion. This reflects an increased charge for bad and doubtful debts (B&DDs) mainly in the UK, and a pre-tax $250 million increase in the economic cycle adjustment on collective provisions (ECA), partially offset by cash earnings growth in the Australian and NZ Banking franchises. The difference between statutory and cash earnings was primarily due to charges relating to the outcomes of the UK Banking strategic review, provisions for customer redress in the UK, fair value and hedge ineffectiveness and the effects of adjusting for treasury shares.
- On a cash earnings basis:
  - Revenue rose by 3.6% reflecting solid growth in Personal Banking, Wholesale Banking and NZ Banking;
  - The charge for B&DDs for the September 2012 full year was $2.6 billion, an increase of $793 million on the September 2011 full year. This reflects increased charges in UK Banking, particularly in the commercial real estate sector, and an increase in the ECA as a prudent response to current economic conditions. Excluding these two items, the charge for B&DDs for the year was broadly flat on September 2011; and
  - Expenses were lower, reflecting strong cost management while the Group continued to invest in key strategic projects. Positive jaws were maintained with growth in revenue exceeding growth in expenses.
- Balance sheet strength remains a priority for the Group. Sound capital, funding and liquidity positions have been maintained. During the year, the Group raised approximately $31.3 billion of term wholesale funding (including approximately $11.5 billion of secured funding). The weighted average term to maturity of the funds raised was 5.1 years. The Stable Funding Index (SFI) increased to 86%, with deposit growth fully funding core asset growth and contributing to balance sheet strength through reduced reliance on short term funding.
- The estimated Basel III Common Equity Tier 1 ratio (on an APRA basis) was 7.9% compared to 7.1% at 30 September 2011. The Group has introduced a Basel III Common Equity Tier 1 ratio target of above 7.5% on an APRA basis to apply from 1 January 2013, and will look to operate at an appropriate buffer to this target.
- The final dividend was 90 cents per share fully franked, consistent with the interim dividend. The total dividend for 2012 was 180 cents, an increase of 8 cents per share fully franked. In response to the strong capital growth in the last year and the forthcoming

1 Refer to note on cash earnings on page 5 of this document.

hybrid conversion, the Group will not offer a discount on the dividend reinvestment plan in respect of the 2012 final dividend.

Executive Commentary

"The Group result reflects both the strength of the core Australian and New Zealand banking businesses and ongoing challenges in the UK", National Australia Bank Group CEO, Cameron Clyne said today.

"The Australian economy has performed well relative to other advanced economies, although business conditions across sectors remain mixed reflecting the prolonged global uncertainty and weak confidence.

"The core Australian franchise performed well with Group cash earnings excluding UK Banking up 9.2% over the year. Personal Banking had a particularly strong year delivering increased returns, higher market share in mortgages and household deposits, and the highest bank customer satisfaction score of the four major Australian banks ever recorded in the Roy Morgan survey[2]. Business Banking maintained its leading market share position in business lending, Wholesale Banking performed strongly, achieving higher revenue across the Customer and Risk businesses, and NAB Wealth made significant investments in innovative capabilities.

"The Group has taken action on several key issues during the year. While the Australian and New Zealand businesses performed well, ongoing weak economic conditions in the UK led to our decision in April to restructure and re-focus UK Banking. On 5 October 2012, the vast majority of the UK commercial real estate portfolio was transferred from Clydesdale Bank PLC to National Australia Bank Limited, improving the Clydesdale Bank balance sheet structure and simplifying the business.

"Expenses were tightly managed while the Group continued to invest in areas of strategic priority. Several key milestones were achieved against the technology transformation program including the launch of our new online trading platform, nabtrade, the migration of more than 300,000 UBank customers to the new NextGen banking platform, and the introduction of everyday settlements for the majority of merchants, meaning businesses can now access funds processed on the weekend. These initiatives will improve cost efficiency and allow more flexibility to respond to customer needs.

"Balance sheet strength remains a priority and the Group made good progress against this objective, strengthening its capital, funding and liquidity positions over the year.

"At the heart of our business lie our beliefs - doing the right thing, helping others and realising potential. In 2012 the Group invested $55.7 million in the community and demonstrated leadership on financial inclusion, hosting Australia's inaugural Financial Exclusion Summit," he said.

Business Commentary

Business Banking

Cash earnings in Business Banking decreased by $36 million or 1.5% against the September 2011 year to $2.4 billion, with small growth in revenue and tightly managed expenses offset by a higher charge for B&DDs, including additional provisions on previously impaired exposures. Through continued strong focus on customer relationships, Business Banking maintained a leading market share in business lending of 24.8% [3] and a strong position in business deposits of 21.2%[4] during 2012. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances at September 2012 was 2.19% compared to 2.23% at March 2012, and watch loans were up around 2.7% in the September half.

2 August 2012, Roy Morgan Research Customer Satisfaction Report. NAB compared with ANZ, CBA and WBC.
3 August 2012, APRA Banking System
4 August 2012, APRA Banking System

Personal Banking

Personal Banking cash earnings increased by $113 million or 12.1% to $1.0 billion and its return on risk weighted assets grew by 30 basis points. Solid revenue growth and a lower charge for B&DDs were key drivers for the full year, as they were over the second half of the year, with September 2012 cash earnings up 25.2% on March 2012.

Personal Banking's differentiated customer proposition continued to deliver market share gains in both housing lending[5] and household deposits[6] in a highly competitive market.

Net interest margin decreased by 16 basis points compared to September 2011 due to funding and deposit cost pressures and changes in product mix, but it increased by two basis points on the March half, reflecting mortgage repricing.

Wholesale Banking

Cash earnings increased by $431 million or 65.2% to $1.1 billion during the September 2012 year as a result of higher revenue across the customer and risk businesses. Revenue increased by $645 million or 34.8%, reflecting an increase in both Risk income as trading conditions improved, and Customer income. Customer income increased through the successful execution of the franchise focus strategy which included higher sales of risk management products to Group customers, the development of innovative direct-to-market funding solutions for clients, a variety of deposit products delivered to customers through the Financial Institution Group franchise and the ongoing success of the Infrastructure and Natural resources business.

Customer income was lower in the second half, reflecting a more normalised level of client hedging activity. The Financial Institutions Group, Specialised Finance and Asset Servicing also performed well during the year.

Wealth

Cash earnings before IoRE[7] and non-controlling interest of $519 million increased by $15 million or 3.0% compared to September 2011, reflecting higher average funds under management (FUM) and increased revenue from both the annuities portfolio and direct asset management. This was partially offset by a deterioration in lapse experience.

Adviser numbers in the aligned channel increased by 82 and the business continued to undertake significant investment. This included the relaunch of key products in both the investments and insurance businesses, the launch of NAB's online trading platform, nabtrade, and the ongoing development of a range of innovative retirement products for Australia's retirees and pre-retirees.

NZ Banking

Cash earnings in NZ Banking increased by NZ$129 million or 21.1% to NZ$741 million compared to September 2011. Net interest margin increased, driven by continued demand for variable rate mortgages, repricing of the business lending portfolio and strong deposit growth which provided margin support relative to more expensive wholesale funding sources. Cash earnings for the September half year decreased by 7.5% compared to March 2012, reflecting an increased charge for B&DDs from low levels in the first half, slightly lower other operating income and higher expenses due to investment in business initiatives.

Customer deposits grew strongly over the year, with average volumes increasing by NZ$3.4 billion or 10.9% as the business continued to focus on growing deposits to support asset growth, reducing reliance on offshore funding markets, and further strengthening liquidity and capital positions.

5 RBA Financial System / NAB
6 APRA Banking System / NAB
7 Investment earnings on shareholders' retained profits and capital in the life business.

UK Banking

UK Banking delivered a cash earnings loss of £139 million in the September 2012 full year due to higher funding costs and an increased charge for B&DDs. The charge for B&DDs increased by £335 million, predominantly from business lending losses as a result of the prolonged economic weakness in Europe which has particularly affected the UK commercial real estate (CRE) market.

Progress has been made on implementing the outcomes of the UK Banking Strategic Review, announced on 30 April 2012, including simplifying the business model to focus on retail operations and SME business lending. The balance sheet has since been strengthened with the transfer on 5 October 2012 of the vast majority of the UK Banking CRE business (comprising assets with balances before provisions of approximately £5.6 billion) from Clydesdale Bank PLC to National Australia Bank Limited. As previously advised, some residual UK CRE assets have been retained by Clydesdale Bank.

Great Western Bank

Great Western Bank delivered growth in its core Agribusiness and SME segments during the year. Cash earnings were US$100 million, US$10 million higher than in September 2011, with a US$34 million reduction in the B&DD charge.

Specialised Group Assets

SGA delivered a cash earnings loss of $9 million loss for the September 2012 full year. Over the September half year, both income and the charge for B&DDs were lower than at March 2012 due to continued run-off in the business.

Over the year, risk weighted assets were reduced by $7.8 billion or 52% to $7.2 billion, reflecting the continued run-off of the portfolio and the removal of the economic risk related to the SCDO assets.

<u>Balance sheet commentary</u>

Capital

The Group Basel II Tier 1 capital ratio of 10.27% at 30 September 2012 is consistent with its objective of maintaining a strong capital position. The estimated Basel III Common Equity Tier 1 ratio on an APRA basis was 7.9% and includes the impact of APRA's draft counterparty credit risk capital reforms. This compares with our Board approved target of above 7.5% and the APRA's regulatory minimum of 4.5% applicable from 1 January 2013 (with APRA applying a further capital conservation buffer of 2.5% applicable from 1 January 2016, increasing APRA's effective regulatory minimum to 7.0%).

Funding and liquidity

The Group continued to explore opportunities to enhance and diversify its funding sources in the 2012 financial year, sustaining strong deposit growth and raising $31.3 billion of term wholesale funding (including secured funding). Deposit growth fully funded core asset growth and contributed to balance sheet strength with the Customer Funding Index increasing to 66%.

The Group maintains well diversified and high quality liquid asset portfolios, with total liquid assets held at 30 September 2012 of $91 billion (excluding contingent liquidity), broadly in line with 31 March 2012.

Group asset quality

Group asset quality metrics remained broadly stable during the year, despite ongoing economic challenges in the UK. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances was 1.78% at September 2012 compared to 1.73% at March 2012. Excluding UK Banking, this ratio was 1.43% compared to 1.50% at March 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 similar business portfolios. 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 146 of the 2012 Full Year Results Announcement. A discussion of non-cash earnings items is included on page 22 and a full reconciliation of the cash earnings to statutory net profit attributable to owners of the Company for the September 2012 full year is included on page 137 of the 2012 Full Year Results Announcement. Section 5 of the 2012 Full Year Results includes the Consolidated Income Statement of the Group, including 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 2012 Annual Financial Report on 19 November 2012.