National Australia Bank

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ASX ANNOUNCEMENT

Thursday, 9 May 2013

NAB 2013 Half Year Results

Stronger results from the Australian businesses

Key Points

The 31 March 2013 half year results are compared with 31 March 2012 half year results unless otherwise stated.

- On a statutory basis, net profit attributable to owners of the Company was $2.52 billion, an increase of $468 million or 22.8%.
- Cash earnings[1] were $2.92 billion, an increase of $87 million or 3.1% on the March 2012 half year, mainly due to higher earnings in Personal Banking and Wholesale Banking. The difference between net profit attributable to owners of the Company and cash earnings was primarily due to fair value and hedge ineffectiveness and the effects of adjusting for treasury shares.
- On a cash earnings basis:
  - Revenue increased by 1.6% driven by growth in Personal Banking, NZ Banking and Wholesale Banking. Group net interest margin (NIM) was 2.03%, three basis points lower than in the September 2012 half year. Excluding the movement in Markets and Treasury, NIM was up by two basis points.
  - Operating expenses increased by $24 million or 0.6%, reflecting ongoing investment in the Australian franchise, partially offset by efficiency initiatives and disciplined management of discretionary expenditure.
  - The charge to provide for bad and doubtful debts (B&DDs) was broadly in line with the March 2012 half year and, excluding the economic cycle adjustment in September 2012, was $142 million lower than the September 2012 half year, reflecting a lower charge in the UK and in Business Banking.
- The Group raised $12.1 billion of term wholesale funding (including secured funding) in the first half of the 2013 financial year. The weighted average maturity of term wholesale funding raised by the Group over the half year to 31 March 2013 was approximately 5.0 years. The stable funding index was 86% at 31 March 2013, in line with September 2012.
- The Group's Basel III Common Equity Tier 1 (CET1) ratio was 8.22% as at 31 March 2013, an increase of 32 basis points against the pro-forma CET 1 ratio as at 30 September 2012[2]. The internationally harmonised Basel III CET1 was 9.99%[3]. The Group targets a CET1 ratio of above 7.5% and will look to operate at an appropriate buffer to that target.
- The interim dividend is 93 cents per share fully franked, an increase of three cents per share on the prior interim dividend.

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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 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.

3 The Group's March 2013 Common Equity Tier 1 ratio (BIS) is consistent with the Australian Bankers' Association Fact Sheet "Comparison of APRA and the Basel Committee on Banking Supervision Basel III Capital Ratios", released 14 December 2012

Executive Commentary

“NAB has delivered a solid March half year result, with continued growth in the Australian and New Zealand businesses and a stronger balance sheet,” National Australia Bank CEO, Cameron Clyne, said today.

“Personal Banking again delivered a good result, further strengthening its position in housing lending and customer deposits as the business continued to build on its differentiated customer proposition. Wholesale Banking was also a key contributor to the Group’s positive result as it increased cross-sell to the Group’s customers. Business Banking maintained its market leading position in business lending and the Wealth Investments business also performed well with stronger client acquisition.

“The UK Strategic Review is proceeding ahead of plan. The UK Banking business is managing a smaller and stronger balance sheet following the transfer of the vast majority of its commercial real estate portfolio to National Australia Bank Limited in October 2012. Pleasingly, the transferred portfolio has contracted further since then, falling from £5.6 billion at October 2012 to £5.0 billion at March 2013.

“In March we announced our refreshed strategic agenda to ensure that our structure is attuned to the changing economic and social landscape. We have begun centralising our product management function to rationalise, standardise and innovate products, and we are further centralising our operations, technology and project services to deliver quicker cycle times, fewer errors and lower costs,.

“Our ongoing technology transformation has allowed us to organise our business to better service customers and to better respond to market developments, particularly those driven by digitisation. During the March half year, we have built and deployed the Oracle Credit Risk Engine, single customer view capability, the new data centre and NAB private cloud. We also began the rollout of 130,000 state-of-the-art merchant acquiring terminals and launched a range of innovative digital customer solutions including MoneyTracker, and PeopleLikeU. These initiatives will further enhance the customer experience, achieve productivity gains and lower costs across the Australian franchise,” he said.

Business Commentary

Business Banking cash earnings were slightly lower against the March 2012 half year and were $95 million or 8.3% higher than the September 2012 half year, due to a $120 million lower charge for B&DDs compared to September 2012. Business Banking maintained its leading market share in business lending[4] and increased average customer deposits despite subdued business conditions. The asset quality metrics of the portfolio improved relative to the September 2012 half year.

Personal Banking continued to deliver strong results with an $89 million or 19.2% increase in cash earnings compared to the March 2012 half year, driven by growth in home lending volumes and improved margins. Market share in housing lending[5] and household deposits[6] continued to grow.

Wholesale Banking cash earnings increased by $97 million or 18.7% to $615 million. Customer income continued to grow, with good momentum in sales of risk management products to Group customers. Risk income increased against the March 2012 half year, but was lower than the September 2012 half year, which was a particularly strong period. Specialised Finance performed well, with increased infrastructure project activity, while Global Capital Markets continued to expand its debt and distribution capabilities.

4 APRA Banking System, as at March 2013.
5 RBA Financial System / NAB, as at March 2013.
6 APRA Banking System / NAB, as at March 2013.

NAB Wealth cash earnings before IoRE[7] were stable compared to March 2012. Earnings in the Investments business grew strongly, reflecting growth in funds under management and increased earnings from direct asset management. Funds under management increased by $13.2 billion or 10.7% as a result of strong market performance and positive net flows. Insurance cash earnings were $45 million lower than the March 2012 half year due to a deteriorating claims and lapse experience, reflecting difficult industry conditions. Inforce premiums as at 31 March 2013 were $1.5 billion, up by $43 million or 2.9% compared to March 2012.

New Zealand Banking cash earnings increased by 0.5% on the March 2012 half year and by 8.7% compared to the September 2012 half year as a result of lending volume growth and higher fee income. BNZ grew market share in Agribusiness, while housing share remained relatively stable[8]. Customer deposits grew strongly, with average volumes increasing by $3.6 billion or 10.7% compared to March 2012.

UK Banking cash earnings were £41 million compared to a loss of £25 million at March 2012, largely reflecting the transfer of the NAB UK CRE portfolio in October 2012. Operating expenses were broadly flat, as benefits from restructuring the business were offset by an increase in the provision for customer redress. Clydesdale Bank plc is now 91.6% customer funded, with a Tier 1 capital ratio of 11.8% (on a UK Prudential Regulation Authority basis) at 31 March 2013.

Cash earnings in the NAB UK CRE business amounted to a loss of £149 million. The charge to provide for B&DDs was £185 million, reflecting ongoing economic pressure on distressed assets and falling property values. As an indicative comparison, this was lower than the charge of £249 million booked against the commercial real estate portfolio in the UK Banking business in the September 2012 half year. Asset quality metrics continued to deteriorate, but at a slower pace than experienced in the September 2012 half year.

Great Western Bank (GWB) cash earnings increased by US$5 million or 10.0% to US$55 million compared to the March 2012 half year, and asset quality metrics improved. GWB remains fully deposit funded.

Group Asset Quality Commentary

Asset quality metrics improved slightly in the March 2013 half year. The Group ratio of 90+ days past due and gross impaired assets to gross loans and acceptances decreased by four basis points to 1.74% at 31 March 2013 compared to September 2012. The ratio of collective provision to credit risk-weighted assets was 0.99% under the new Basel III risk weighted assets definition, and was relatively stable on a comparable Basel II basis over the prior half.

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7 Investment earnings on shareholders' retained profits and capital in the life business, net of capital funding costs.
8 Reserve Bank of New Zealand data, as at March 2013.

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 7 of the 2013 Half 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. 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 2013 Half Year Results Announcement.