



15 August 2016

ASX Announcement

NAB 2016 Third Quarter Trading Update

Key points

The June 2016 quarter results are compared with the quarterly average of 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 22 April 2016, including the impact of the CYBG demerger.

- Unaudited cash earnings¹ for continuing operations were approximately \$1.6 billion, which is approximately 3% lower than the quarterly average of the March 2016 Half Year result and approximately 3% lower than the prior corresponding period.
- On a statutory basis, unaudited net profit attributable to the owners of the Company for the June quarter was approximately \$1.6 billion, which was compositionally different to cash earnings. The main differences between statutory and cash earnings relate to distributions, life insurance sale transaction costs and fair value and hedge ineffectiveness.
- On a cash earnings basis for continuing operations:
 - Revenue was broadly stable compared with the quarterly average of the March 2016 Half Year with growth in lending offset by lower net interest margin (NIM). Group NIM, excluding the impact of Markets and Treasury², was slightly lower due to higher funding costs.
 - Expenses fell approximately 1% reflecting tight control of costs.
 - The charge for bad and doubtful debts for the quarter rose 21% to \$228 million. The increase largely reflected the non-recurrence of the unusually low bad and doubtful debt charge in the first quarter of 2016 and an increase in the mining and agriculture collective provision overlay. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances was 0.81% at 30 June 2016, up from 0.78% at 31 March 2016.
- The Group's Common Equity Tier 1 (CET1) ratio was 9.5% at 30 June 2016, compared with 9.7% at 31 March 2016 mainly reflecting the impact of the interim 2016 dividend declaration. The Group's CET1 target ratio remains 8.75% – 9.25%, based on current regulatory requirements.
- The Group's leverage ratio at 30 June 2016 was 4.9% on an APRA basis.
- The Group's quarterly average liquidity coverage ratio (LCR) at 30 June 2016 was 125%.

¹ Refer to note on cash earnings on page 3 of this document.

² Markets and Treasury income represents Customer Risk Management and NAB Risk Management income.

Executive Commentary

“We continue to deliver on our strategy - getting the basics right, serving our customers better and keeping the balance sheet strong,” said NAB Group CEO Andrew Thorburn.

“The Australian and New Zealand economies remain resilient and continue to deliver growth amid heightened global uncertainty. While we saw higher funding costs during the quarter, asset quality remains strong and cost control was pleasing.

“These higher funding costs contributed to our decision to not pass on all of the most recent RBA interest rate cut to home loan borrowers. The decision reflects the responsibility we have to balance the needs of all stakeholders - borrowers, depositors and our 584,000 shareholders.

“Customer advocacy, as measured by Net Promoter Score (NPS)³ in our Priority Segments⁴, has now been the highest of the four major banks for the past 7 months. We are pleased with the improvement but still have plenty of work to do to achieve a level of customer advocacy we can be proud of.

“The branch rollout of our state-of-the-art Personal Banking Origination Platform has now been completed in every state except New South Wales, which recently commenced. Our customers and people are now benefiting from much simpler application processes and much faster approval times.

“NAB Labs, our innovation hub, has delivered a number of key initiatives particularly supporting the small business sector including NAB QuickBiz loans, NAB Business Start-up and new digital marketplace Proquo in partnership with Telstra.

“The sale of 80% of the life insurance business to Nippon Life remains on track for completion during the second half of calendar year 2016 following the achievement of an important milestone on 1 July with the merger of five super funds to create Australia’s largest retail super fund with approximately \$70 billion in funds under management.

“We recently announced changes to our organisational structure which will continue our momentum in creating a simpler more customer-focused organisation and achieving our vision of becoming Australia and New Zealand’s most respected bank,” Mr Thorburn said.

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⁴ Priority Segments NPS is a simple average of the Net Promoter Scores of five Priority Segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

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

Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit/loss attributable to owners of NAB for the half year ended 31 March 2016 is set out on pages 2 to 7 of the 2016 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, 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 2016 Half Year Results Announcement.