

# FIRST QUARTER TRADING UPDATE 2020



The December 2019 quarter results are compared with the quarterly average of the September 2019 half year results for continuing operations (excluding large notable items) unless otherwise stated. Cash and statutory earnings are rounded to the nearest \$50 million. Revenue, expenses and asset quality are expressed on a cash earnings basis.

## 1Q20 FINANCIAL HIGHLIGHTS

**\$1.70<sup>BN</sup>**

Unaudited statutory  
net profit

**\$1.65<sup>BN</sup>**

Unaudited  
Cash earnings<sup>1</sup>

**1.0%**

Cash earnings growth  
Vs 1Q19

**10.6%**

Group Common Equity  
Tier 1 ratio (CET1)

“One of our key priorities is to grow our bank safely. In a challenging operating environment, featuring a low cash rate and subdued lending growth, our 1Q20 performance is sound.

We are delivering on our three year transformation which commenced in September 2017. This is making banking easier for our customers and employees. In this quarter a further 32 fees were removed or reduced across Australian Banking and Wealth, product numbers declined again and we have now migrated 30% of legacy IT applications to more reliable, lower cost cloud platforms. This work is continuing.

Twelve months on from the conclusion of the Royal Commission, we remain focussed on building confidence and trust in our bank by addressing legacy issues where customers were treated poorly. Customer-related remediation programs and regulatory compliance investigations (including associated enforcement actions and class actions) are continuing, with potential for additional charges although amounts and timing remain uncertain.

Work is underway to refresh our strategy and build a plan for the next five to ten years, defining our ambition and being clear on the bank we want to be: one that gets the basics right, delivers for customers, is safe and secure and has the culture we need for NAB to be a leading bank again.

**ROSS MCEWAN - NAB CEO**

## OPERATING PERFORMANCE

- Compared with the 2H19 quarterly average, cash earnings increased 1% (excluding large notable items)
  - Revenue rose less than 1% mainly reflecting a slightly higher net interest margin;
  - Net interest margin benefitted from home loan repricing helping to offset the impact of a low interest rate environment;
  - Expenses rose 3% reflecting timing and nature of technology and investment spend, combined with higher performance-based compensation. While recognising ongoing cost pressures create challenges, we continue to target broadly flat FY20 expenses<sup>2</sup>

## BACKING OUR CUSTOMERS & THE COMMUNITY

- Strategic Priority Segments Net Promoter Score (NPS)<sup>3</sup> declined from -16 in September to -18 in December with NAB ranked first of the major banks
- Provided \$2.4 million in grants to 1,223 retail, business and agribusiness customers as part of NAB's \$5 million contribution to bushfire recovery efforts and gave permanent employees an extra day of annual leave to visit and support bushfire affected towns
- NAB selected as the first lender to participate in the Federal Government's First Home Loan Deposit Scheme, and offers a special first homebuyer rate currently at 2.88% pa, fixed for two years

<sup>1</sup> Refer note on cash earnings on page 3.

<sup>2</sup> Excluding large notable items such as customer-related remediation costs.

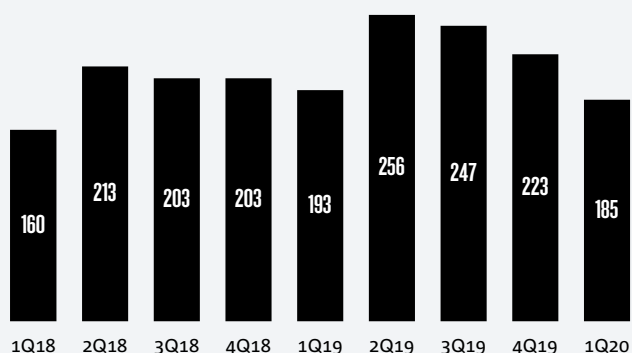
<sup>3</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Sourced from DBM Consultants BFSM and Consumer Atlas, measured on 6 month rolling average. Definition has been updated to give all customers in the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer and Business segment results using a 50% weighting for each. History has been restated.

# NAB 2020 FIRST QUARTER TRADING UPDATE

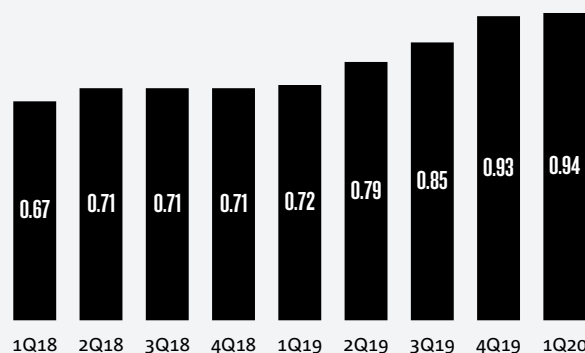
## ASSET QUALITY

- Credit impairment charges fell 21% to \$185 million compared with the 2H19 quarterly average, with important drivers including non-repeat of both NZ dairy impairments and the impact of house price movements in 2H19. The ratio of collective provisions to credit risk weighted assets remained steady at 96 basis points (bps) from September to December.
- Asset quality remains broadly sound, with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances broadly stable at 0.94%.

### CREDIT IMPAIRMENT CHARGES (\$MILLIONS)

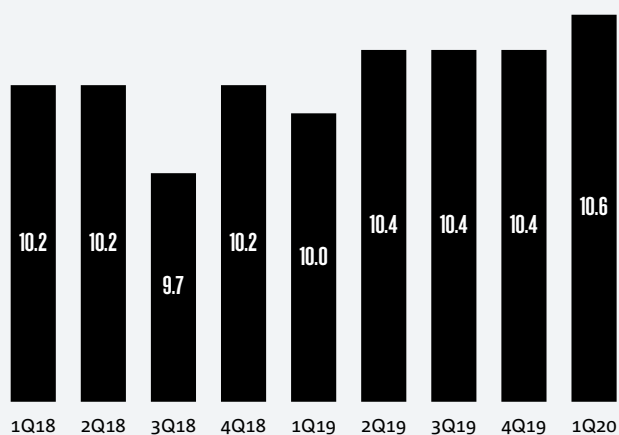


### 90+ DAYS PAST DUE & GROSS IMPAIRED ASSETS/GROSS LOANS AND ACCEPTANCES (%)



## CAPITAL, FUNDING & LIQUIDITY

### CET1 RATIO (%)



### KEY RATIOS AS AT 31 DECEMBER 2019

- Group CET1 ratio of 10.6%, compared with 10.4% at September 2019, which includes \$0.7 billion (17 bps of CET1) of 2H19 Dividend Reinvestment Plan underwrite proceeds
- Leverage ratio (APRA basis) of 5.6%
- Liquidity Coverage Ratio (LCR) quarterly average of 129%
- Net Stable Funding Ratio (NSFR) of 112%
- NAB is considering an offer of a new ASX listed Additional Tier 1 capital security alongside the potential repayment of NAB Capital Notes (NCN) and subsequent conversion of up to \$750 million of NCN into ordinary shares (18bps of CET1)<sup>4</sup>

## MLC UPDATE

NAB continues to make progress towards a separation of MLC Wealth. We are targeting a public market exit but will also explore alternative transaction structures and options. To assist our exit, our focus includes client remediation, operational separation and enhancing long term business sustainability.

NAB will take a disciplined approach to the exit of MLC Wealth and will execute a transaction at the appropriate time having regard for the interests of all stakeholders. Work on operational separation has progressed well but the business environment remains challenging. This may defer exit beyond FY20.

Any transaction remains subject to market conditions, regulatory and other approvals.

<sup>4</sup> Any offer, repayment or conversion remains subject to market conditions and all relevant approvals being obtained. Any offer of ASX listed Additional Tier 1 capital securities by NAB will be made under a prospectus that will be available on NAB's website. If an offer is made, any person wishing to apply will need to do so using an application form attached to or accompanying the prospectus. Any conversion of NCN will occur once NCN are held by a nominated purchaser.

### FOR FURTHER INFORMATION

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The release of this announcement was authorised by Gary Lennon, Group Chief Financial Officer.

### 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", "target", "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. You are cautioned not to place undue reliance on such 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.

Page 1 of this announcement describes certain initiatives relating to the Group's strategic agenda, including certain forward-looking statements which were first announced at the Group's 2017 Full Year Results Announcement. These statements are subject to a number of risks, assumptions and qualifications. Please refer to the Group's 2019 Full Year Results Announcement for an updated description of the key risks, assumptions and qualifications.

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 2019 Annual Financial Report, which is available at [www.nab.com.au](http://www.nab.com.au).

### NOTE ON CASH EARNINGS

The Group's results are presented on a cash earnings basis, excluding large notable items, 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. 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 full year ended 30 September 2019 is set out on pages 2 to 8 of the 2019 Full Year Results Announcement under the heading "Profit Reconciliation". The Group's financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, and audited by the auditors in accordance with Australian Auditing Standards, were published in the Group's 2019 Annual Financial Report.