



National Australia Bank Limited
ABN 12 004 044 937
800 Bourke Street
Docklands Victoria 3008
AUSTRALIA
www.nabgroup.com

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AASB 9 Accounting Standard – Analyst and Investor Presentation

The attached slides provide an overview of Accounting Standard AASB 9 and the impact of NAB's decision to early adopt from 1 October 2014. This will provide the basis of information for analyst and investor workshops being conducted in the coming days.

For further information:

Media

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

Emily Ritchie
M: +61 (0) 457 551 211

Investor Relations

Ross Brown
M: +61 (0) 417 483 549

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



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AASB 9

Financial Instruments

17 March 2015

Important note on these presentation slides

This document is a visual aid accompanying a presentation to analysts and investors. It is not intended to be read as a stand-alone document. It contains select information, in abbreviated or summary form, and does not purport to be complete. It is intended to be read by a sophisticated investor audience familiar with National Australia Bank Limited and its September 2014 Full Year Results. This document should not be read without first reading the National Australia Bank Limited September 2014 Full Year Results, which have been lodged with the Australian Securities Exchange and are available at www.nab.com.au.

The Group's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, are available as part of the Group's Annual Financial Report, which has been lodged with the Australian Securities Exchange and is available at www.nab.com.au.

Note:

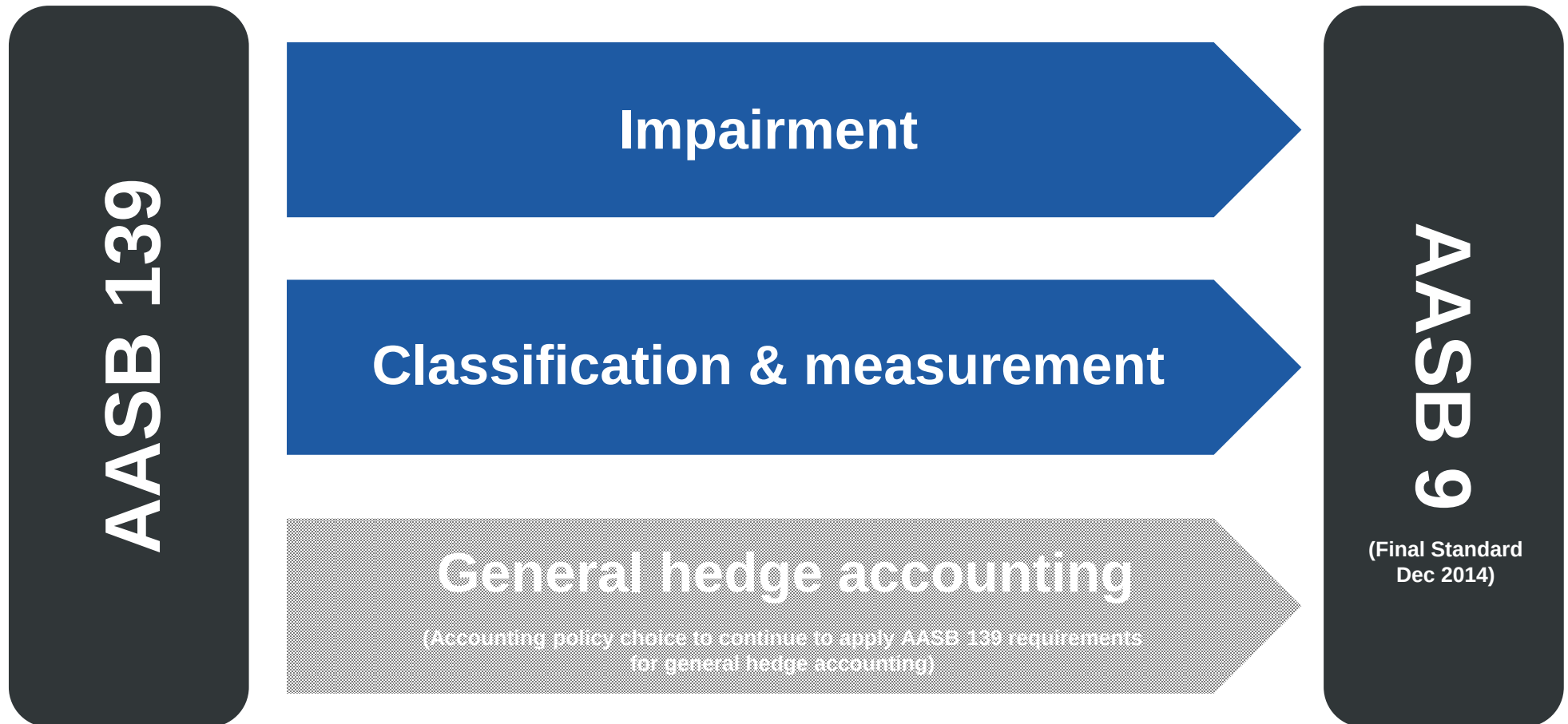
- This document is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.
- This document contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "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.

Overview

- NAB early adopted AASB 9¹ from 1 October 2014
- Main change is to collective provisioning methodology and held-to-maturity assets
- Early adoption provides several benefits including:
 - Increase collective provisions by \$725m and offsetting reduction in GRCL (no P&L impact)
 - Collective provision is less volatile through the cycle
 - Removes restrictions on selling legacy assets previously classified as Held-to-maturity under AASB 139
- Pro-forma reduction in CET1 ratio of 13bps as at 30 September 2014 (excluding any offset from asset sales) captured in 31 December 2014 CET1 ratio

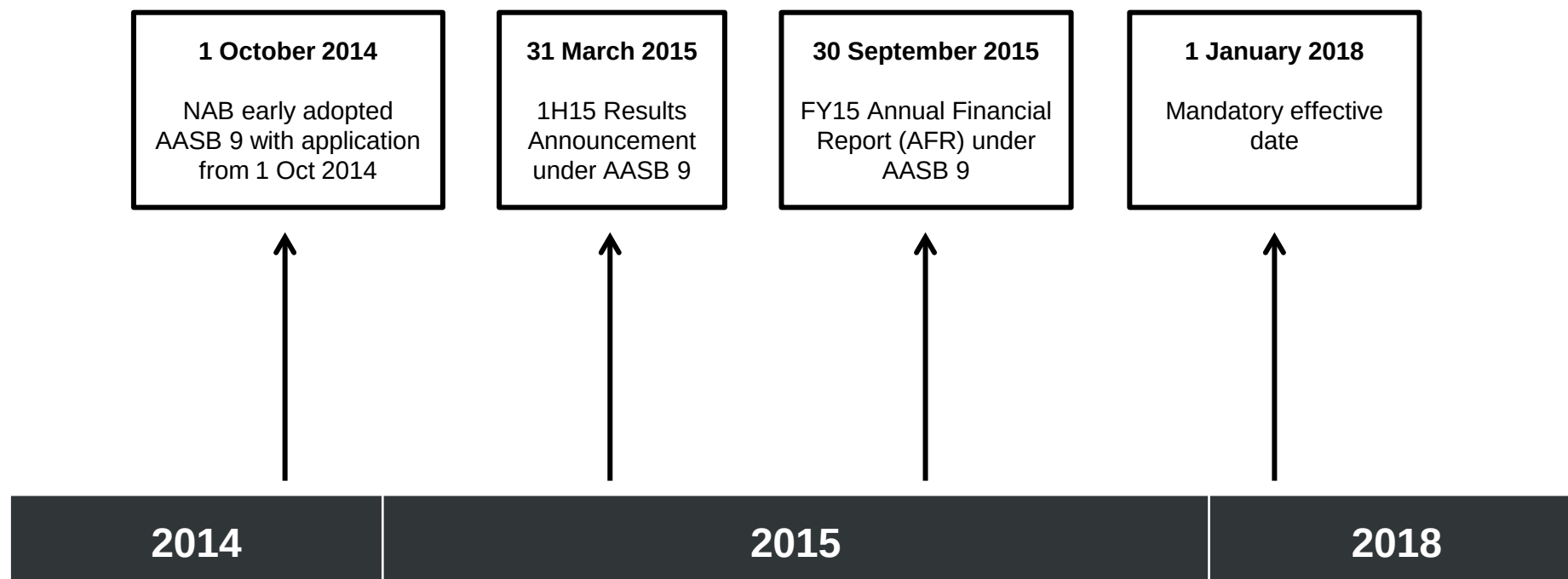
1. AASB 9 is the Australian equivalent of IFRS 9: Financial Instruments issued in July 2014 by the International Accounting Standards Board

AASB 9 Financial Instruments – What does AASB 9 cover?



AASB 9 – Implementation timeline

- NAB early adopted AASB 9 effective from 1 October 2014
- 2015 Half Year and Annual results will be reported under AASB 9
- Other banks must adopt no later than the first reporting period beginning on or after 1 January 2018



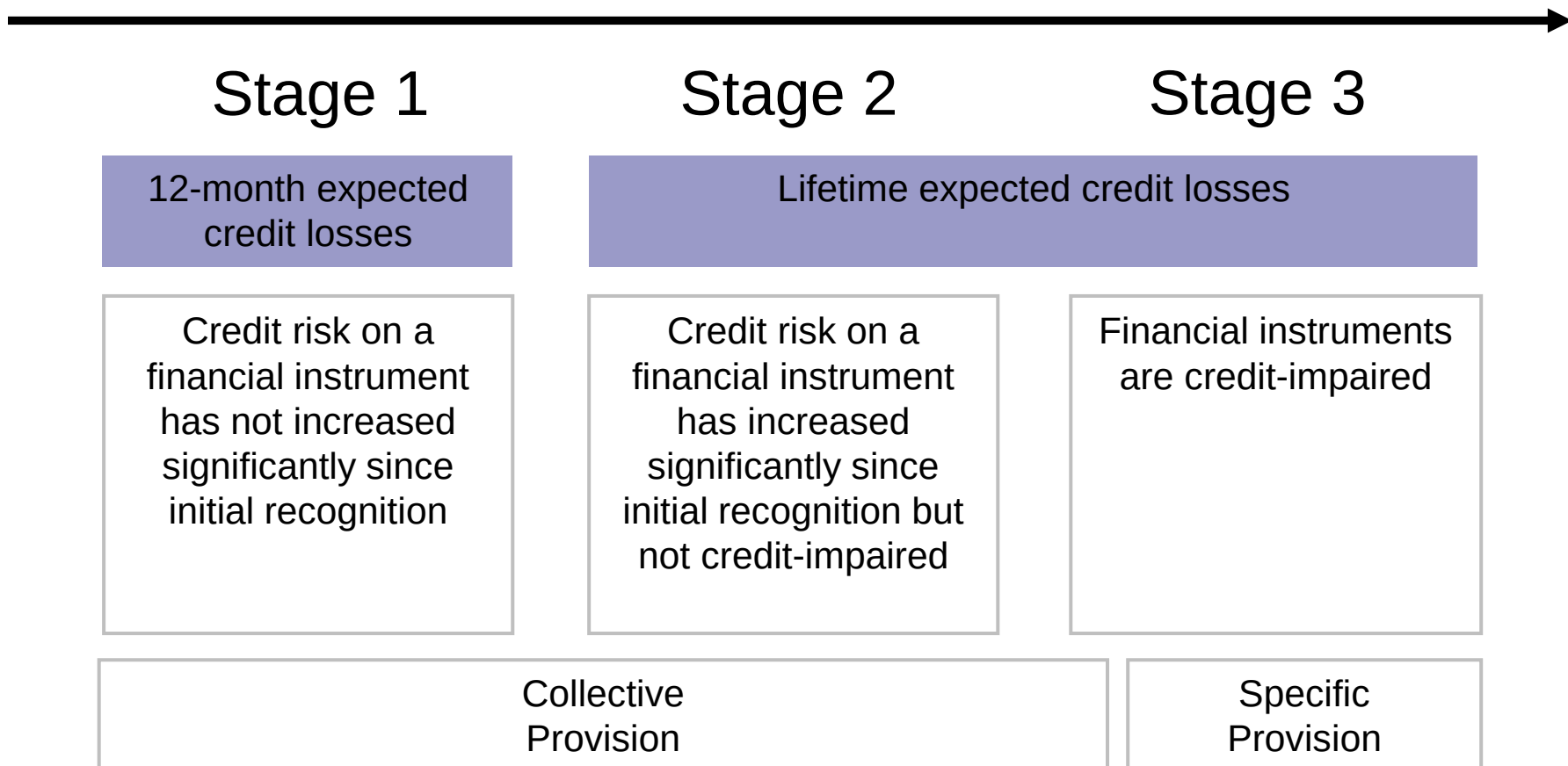
AASB 9 Impairment – What is it?

The impairment component of AASB 9 seeks to address the delayed recognition of credit losses perceived to exist in the current AASB 139 approach

	Approach	Differences
Current Standard AASB 139	Incurred loss only recognising losses that have already occurred	• Can lag the economic cycle • Can only provide for incurred/recognised credit loss
AASB 9 Impairment	Expected credit losses including an evaluation of the forecast direction of the economic cycle	• Earlier recognition of expected losses • Differentiates risk for exposures that have exhibited deterioration (3-Stage approach)

AASB 9 Impairment – The general approach

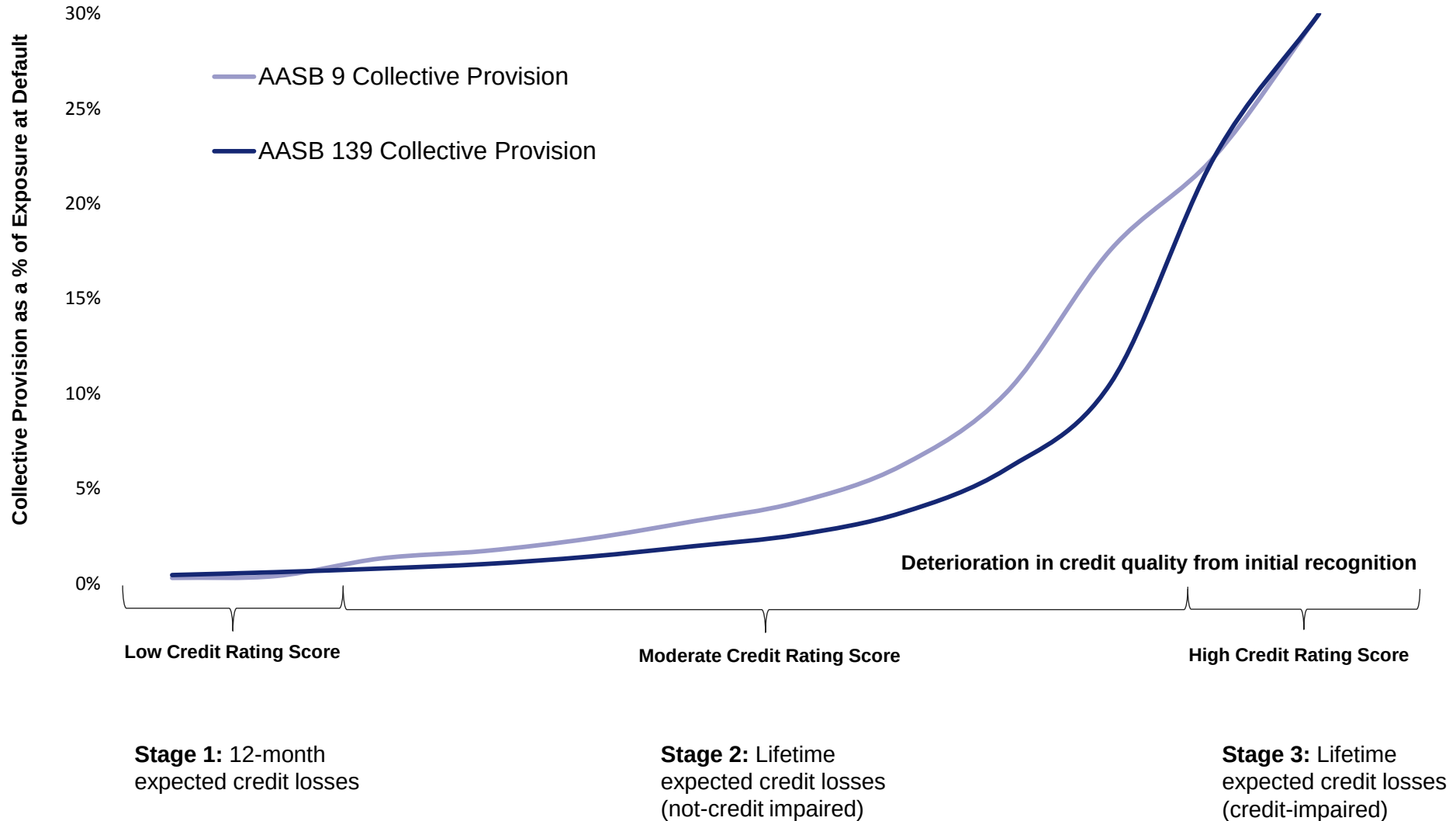
Significant increase in credit risk since initial recognition



AASB 9 provides earlier recognition of credit losses relative to AASB 139

For illustrative purposes only

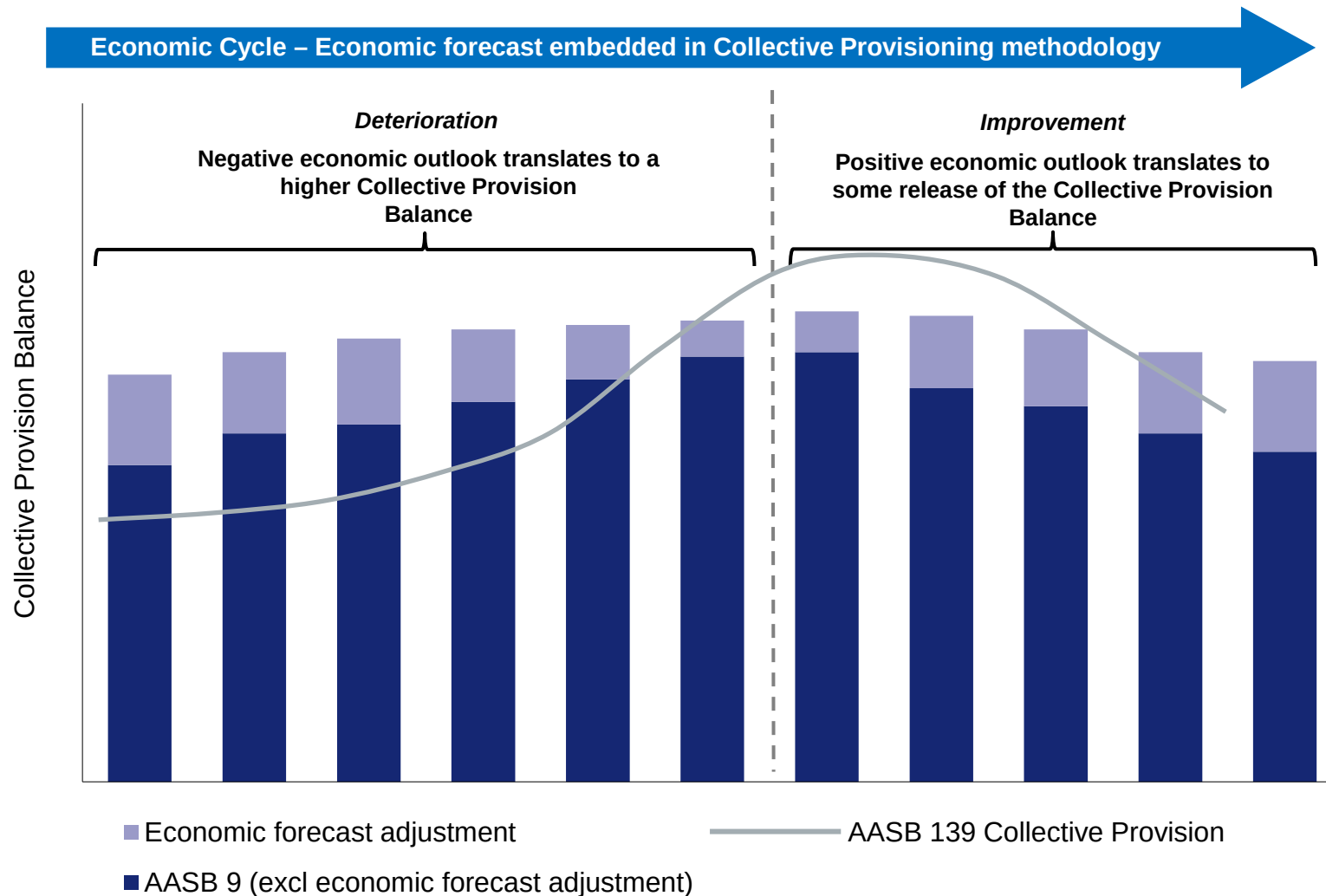
Provision Cycle for a Single Exposure



AASB 9 Collective Provision less volatile through the cycle

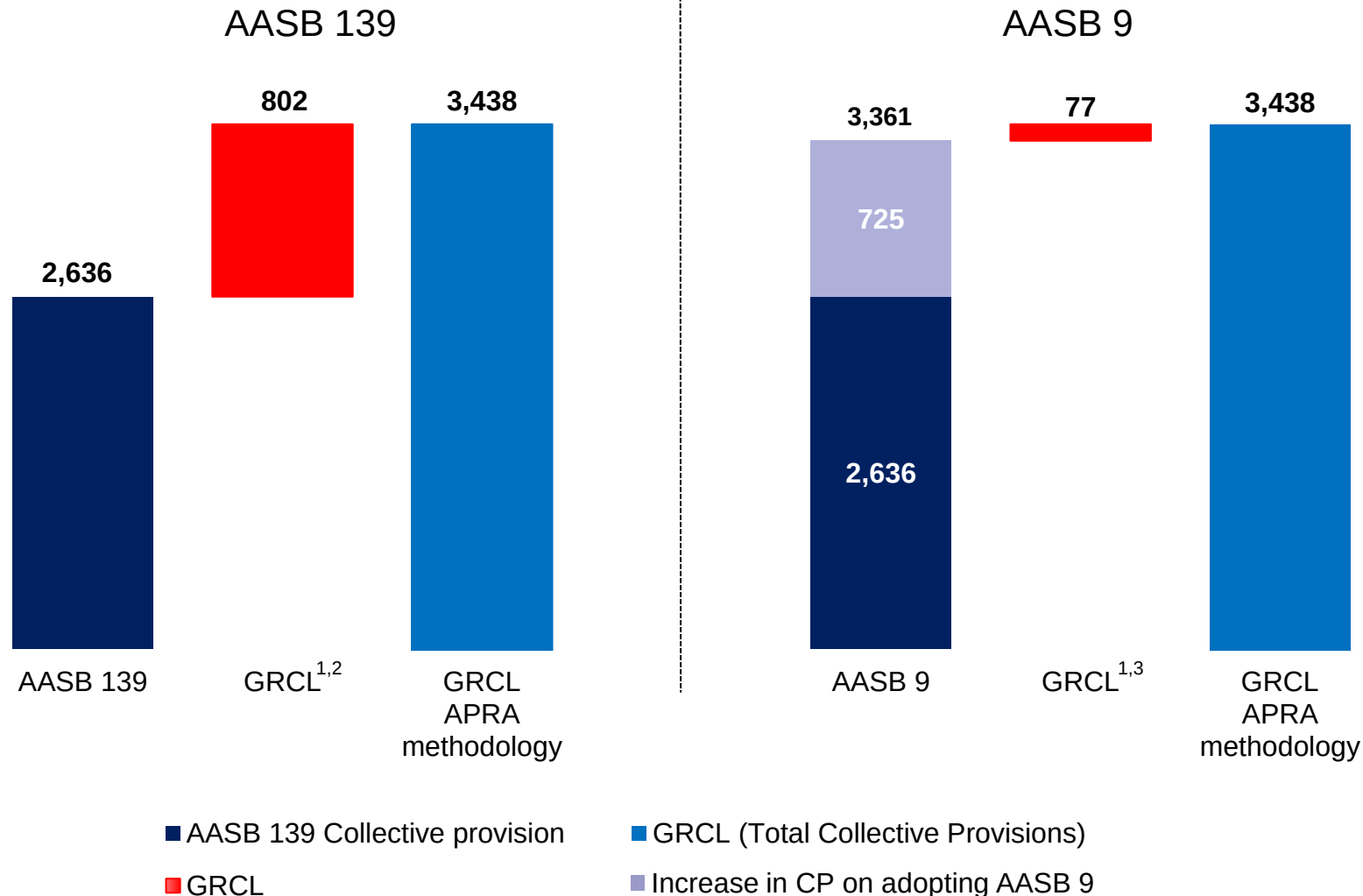
For illustrative purposes only

Economic forecast assumptions are reassessed dependent upon point in economic cycle



AASB 9 impairment – Pro-forma transition impact on Collective Provisions

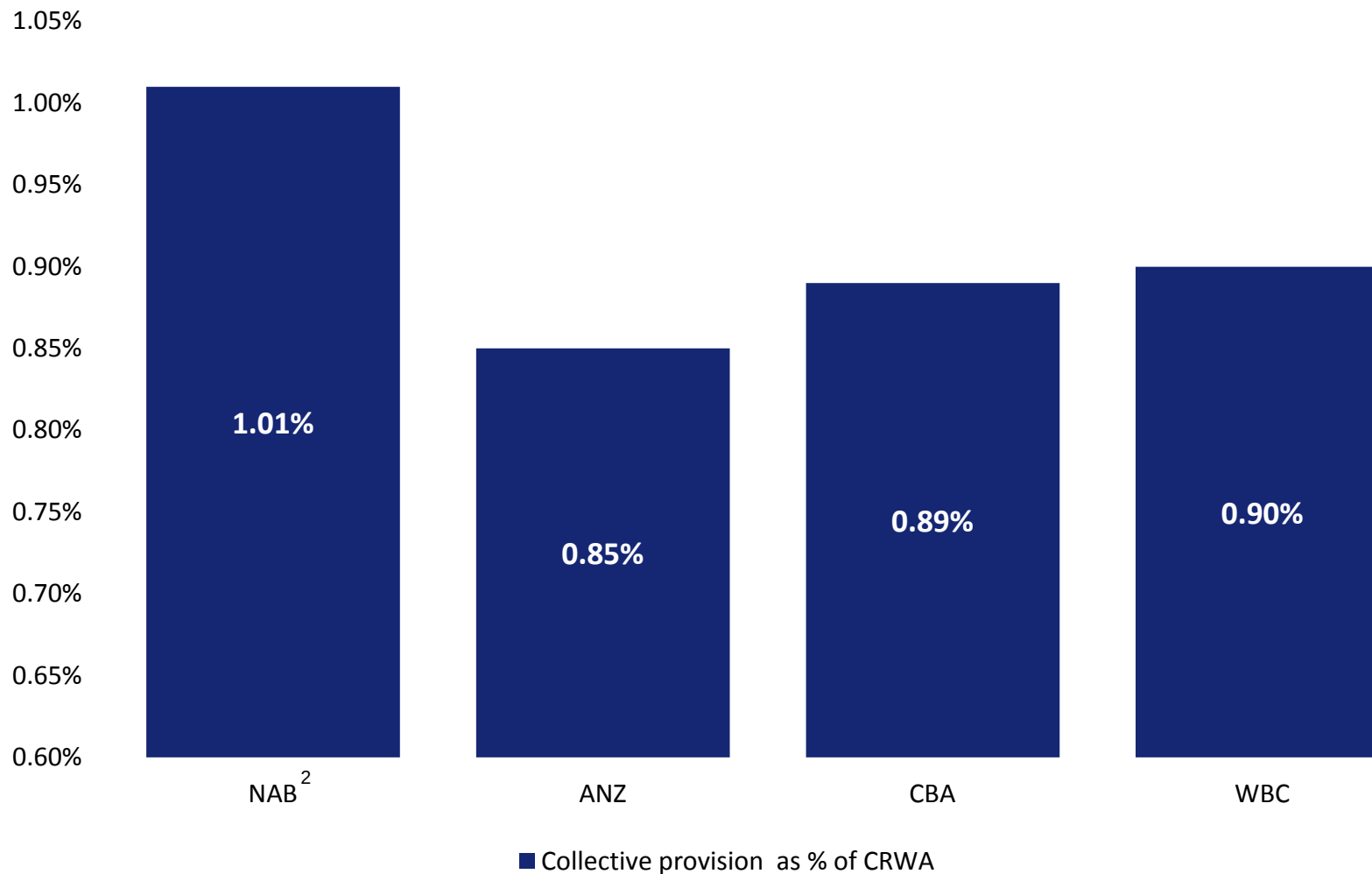
September 2014 (\$m)



1. The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets
2. Post tax equivalent of \$601m disclosed in 2014 Annual Financial Report
3. Some GRCL remains as the APRA methodology is based on a lifetime expected loss and the AASB 9 collective provision is a combination of 12-month and lifetime expected credit losses

Collective Provision Coverage – Peer comparison¹

Collective provision to Credit-risk weighted assets (CRWA) (Dec 14)



1. December 14 data based on Pillar 3 Industry disclosures
2. Includes 6bps of derivative provisions as % of CRWA

AASB 9 Classification & Measurement – What is it and impacts

What is it?	Impact
AASB 9 determines whether financial assets and financial liabilities are measured at fair value or amortised cost	A large portion of fair value loan portfolio reclassified to amortised cost
- Removes Available-for-sale and Held-to-maturity (HTM) asset categories - Removes restrictions from selling previous HTM assets	- Majority of Held-to-maturity assets reclassified to Other assets at amortised cost - Certain assets (e.g. Specialised Group Assets) with intent to sell reclassified to fair value
Introduces a new measurement category - Fair value through Other Comprehensive Income (FVOCI)	Majority of Available-for-sale assets reclassified to FVOCI
Re-measurement differences arise between current carrying value and fair value at transition	Transition impacts booked in retained earnings

Summary

- Increased collective provision by \$725 million taken through retained earnings (no P&L impact)
- Peer leading collective provision coverage ratios
- Removes restrictions on selling legacy assets previously classified as Held-to-maturity under AASB 139
- Pro-forma reduction in CET1 ratio of 13bps as at 30 September 2014 (excluding any offset from asset sales) captured in 31 December 2014 CET1 ratio
- Full impacts of AASB 9 transition disclosed in 1H15 Results

Questions & Answers



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Appendix A - Terms

Acronym	
AASB	Australian Accounting Standards Board
AASB 139	AASB 139 Financial Instruments: Recognition and Measurement
AASB 9	AASB 9 Financial Instruments
APRA	Australian Prudential Regulation Authority
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions
Common Equity Tier 1 (CET1) Capital	Common Equity Tier 1 (CET1) Capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominantly comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital
Credit-impaired	A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cashflows of that financial assets have occurred
CRS	Customer Rating Score is an internal credit risk grade
GRCL	The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets
IASB	International Accounting Standards Board
Lifetime expected credit losses	The expected credit losses that results from all possible defaults events over the expected life of a financial asset
SGA	Specialised Group Assets
12-months expected credit losses	The portion of lifetime expected credit losses that represents expected credit losses that result from default events on a financial instruments that are possible within the 12 months after the reporting date

For further information contact:

Ross Brown

Executive General Manager, Investor Relations
Mobile | +61 (0) 417 483 549

Natalie Coombe

Senior Manager, Investor Relations
Mobile | +61 (0) 477 327 540

Meaghan Telford

Head of Corporate Affairs, Group Media
Mobile | +61 (0) 457 551 211

Emily Ritchie

Senior Manager, Group Media
Mobile | +61 (0) 477 389 438