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ASX Announcement

NAB 2016 First Quarter Trading Update

Improved business results and successful CYBG separation

Key points

The quarterly average of the September 2015 Half Year results for continuing operations is used for comparison purposes unless otherwise stated.

- Unaudited cash earnings for continuing operations (which excludes CYBG PLC (CYBG)) were approximately \$1.7 billion for the December 2015 quarter, which is approximately 3% above the quarterly average of the September 2015 Half Year result and approximately 8% up on the prior corresponding period.
- On a statutory basis, unaudited net profit attributable to the owners of the Company for the December 2015 quarter was approximately \$1.5 billion. The main difference between statutory and cash earnings relates to fair value and hedge ineffectiveness, elimination of treasury shares, and sale and demerger costs consistent with previous disclosures.
- On a cash earnings for continuing operations basis (which excludes CYBG):
 - Revenue increased approximately 2%. Excluding a legal settlement gain in the September 2015 half year, revenue rose approximately 4% benefitting from improved lending volumes, a higher net interest margin (NIM), and stronger Wealth results. Group NIM increased reflecting benefits of home loan repricing partly offset by higher funding costs and competition for business lending.
 - Expenses increased approximately 5%. The result was impacted by the timing of higher personnel costs, largely related to Enterprise Bargaining Agreement salary increases and redundancy costs associated with project completions. Current expectations are for FY16 cash expense growth for continuing operations, and excluding currency impacts, to be less than FY15 expense growth of 4.1%¹.
 - The charge for Bad and Doubtful Debts (B&DDs) for the quarter fell 52% to \$84 million. The key driver was lower charges in Australian Banking due to improved asset quality and the non-repeat of the Australian mining and agri overlay top-up in the September 2015 half year.
- The Group's Common Equity Tier 1 (CET1) ratio was 10.1% as at 31 December 2015, compared with 10.2% at 30 September 2015 reflecting the impact of the final 2015 dividend declaration. The Group's CET1 target ratio remains 8.75% – 9.25%.
- The Group's leverage ratio as at 31 December 2015 was 5.4% on an APRA basis.
- The Group's quarterly average liquidity coverage ratio (LCR) as at 31 December 2015 was 119%.

¹ Excludes the impact of foreign currency movements

Executive Commentary

“Our performance in the first quarter demonstrates continued momentum across our Australian business and our focus on delivering a great customer experience, particularly in key customer segments,” said NAB Group CEO Andrew Thorburn.

“In our core business, investment in priority segments is delivering improving results. This is particularly the case in Australian Banking which this period recorded improved revenue growth on higher volumes and stronger margins, and improved pre-provision profit. While competition in Business Banking remains intense and funding costs have risen, we have a strong franchise and pleasingly the rate of business lending margin decline is moderating.

“Importantly, our asset quality and balance sheet remain strong, notwithstanding recent volatility in markets and commodity prices. Staying focused on these basics of banking is a priority for us.

“In February, we achieved a very significant milestone with the successful completion of the demerger and Initial Public Offering (IPO) of CYBG. The sale of 80% of our life insurance business to Nippon Life, as announced in October 2015, marks our last major divestment of low returning and legacy assets, and we are making good progress towards the finalisation of this transaction.

“NAB is a stronger, more focused bank, positioned to deliver growth for shareholders in its core markets, as we drive towards our vision of becoming Australia and New Zealand’s most respected bank,” Mr Thorburn said.

Group Asset Quality for continuing operations (which excludes CYBG)

The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances was 0.68% at 31 December 2015, up from 0.63% at 30 September 2015. The increase reflects the inclusion of a small number of New Zealand dairy exposures totalling NZ\$420 million as impaired assets but with no loss currently expected.

The ratio of collective provision to credit risk weighted assets was 1.00% at 31 December 2015, unchanged from 30 September 2015. The ratio of specific provisions to impaired assets² was 32.4% at 31 December 2015 compared to 30.3% at 30 September 2015.

CYBG demerger and IPO update

Following completion of the first five days trading in CYBG, NAB is able to confirm a number of key details in relation to the demerger and IPO of CYBG.

The five-day volume weighted average share price (VWAP) for CYBG is \$4.01³. For NAB shareholders who have received CYBG securities or whose entitlements are being sold under the Sale Facility, NAB expects that this will equate to a cost base per CYBG security of \$4.01 for Australian capital gains tax purposes. NAB expects to announce further tax information following the publication of the class ruling from the Australian Taxation Office (ATO).

As previously flagged in the Scheme Booklet, NAB will incur an accounting loss associated with the demerger and IPO of CYBG. In general terms, the loss reflects the following:

- The aggregate value of CYBG securities distributed to NAB shareholders (as calculated on the basis of the VWAP described above) together with the IPO proceeds, were less than the CYBG book value; and
- The strengthening of the AUD against the GBP since acquisition.

² Consists only of impaired assets where a specific provision has been raised and excludes ‘impaired but no loss expected’ New Zealand dairy exposures

³ The average VWAP of CYBG shares and Chess Depositary Instruments (CDIs) as traded on the London Stock Exchange (LSE) and Australian Securities Exchange (ASX) between Wednesday 3 February 2016 and Wednesday 10 February 2016, as defined on pages 294 and 297 of the Scheme Booklet.

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Based on the 30 September 2015 NAB pro forma accounts set out in the Scheme Booklet, updated for the five-day VWAP, final IPO offer price, estimated transaction costs and an AUD/GBP exchange rate of 0.495, the loss is expected to be approximately \$4.2 billion. Finalisation of the actual loss will be undertaken as part of the completion of the 31 March 2016 half year financial statements.

The loss will not form part of NAB's reported cash earnings for the half year ending 31 March 2016. The loss will be reported in discontinued operations in NAB's income statement in keeping with Australian accounting standard requirements. The loss will not impact on NAB's dividend policy.

The overall impact of the demerger and IPO, including the conduct indemnity, is estimated to reduce NAB's CET1 capital ratio by 49 basis points. Based on NAB's CET1 ratio as at 31 December 2015, this implies a pro forma post demerger CET1 ratio of 9.6%, which is above NAB's target range of 8.75%-9.25%.

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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 for the full year ended 30 September 2015 is set out on pages 2 to 8 of the 2015 Full 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 non-IFRS 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 audited by the auditors in accordance with Australian Auditing Standards, were published in its 2015 Annual Financial Report on 16 November.

Treasury shares are shares in the NAB held by the Group's life insurance business and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's life insurance business are eliminated for statutory reporting purposes.

Fair value and hedge ineffectiveness represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.

Sale and demerger transaction costs represent costs incurred in the sale and demerger of CYBG PLC and sale of 80% of the Group's life insurance business.

DISCLAIMER – MATTERS RELATING TO DEMERGER AND IPO OF CYBG

THIS ANNOUNCEMENT DOES NOT CONTAIN OR CONSTITUTE AN OFFER OF, OR THE SOLICITATION OF AN OFFER TO BUY OR SUBSCRIBE FOR ANY SECURITIES TO ANY PERSON IN ANY JURISDICTION. NOR WAS ANY RETAIL OFFER CONTEMPLATED AS PART OF THE IPO.

The information contained in this announcement is for background purposes only and does not purport to be full or complete. No reliance may be placed for any purpose on the information contained in this announcement or its accuracy, fairness or completeness. This announcement 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.

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This announcement is not addressed to the public (i) in the United Kingdom or (ii) in any other Member State of the European Economic Area ("EEA"). An investment in the IPO was made available only to (a) persons in member states of the ("EEA") who were qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC as amended, including by Directive 2010/73/EC) ("Qualified Investors") and (b) in the UK to Qualified Investors who (i) were persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (ii) were persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order. This announcement must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this announcement relates is available only to relevant persons in the United Kingdom and Qualified Investors in any member state of the EEA other than the United Kingdom, and will be engaged in only with such persons.

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