



Monday, 6 February 2017

ASX Announcement

NAB 2017 First Quarter Trading Update

Key points

The December 2016 quarter results are compared with the quarterly average of the September 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 13 October 2016.

- Unaudited cash earnings¹ were approximately \$1.6 billion, which is approximately 1% lower than the quarterly average of the September 2016 Half Year result and approximately 1% lower than the prior corresponding period.
- On a statutory basis, unaudited net profit attributable to the owners of the Company for the December quarter was approximately \$1.6 billion.
- On a cash earnings basis:
 - Revenue increased approximately 1%, benefitting from growth in lending and higher trading income. Group net interest margin (NIM) was broadly stable.
 - Expenses rose approximately 5%. Key drivers include higher personnel costs mainly related to the timing of the 1 October 2016 Enterprise Bargaining Agreement salary increases and redundancies, combined with higher project related costs including regulatory spend, and increased depreciation and amortisation. These items were partly offset by productivity savings.
 - The charge for bad and doubtful debts for the quarter declined 23% to \$164 million. A key driver was the non-repeat of the increase in the collective provision overlay for mining, mining related and agricultural sectors in the September 2016 Half Year. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances was 0.90% at 31 December 2016, up from 0.85% at 30 September 2016. Over the same time period specific provision coverage of gross impaired assets increased from 38.3% to 43.0%².
- The Group's Common Equity Tier 1 (CET1) ratio was 9.5% at 31 December 2016, compared with 9.8% at 30 September 2016, mainly reflecting the impact of the final 2016 dividend declaration. The Group's CET1 target ratio remains 8.75% – 9.25%, based on current regulatory requirements. As part of NAB's ongoing commitment to maintain a strong and efficient capital position, NAB is considering issuance of a new ASX-listed Subordinated Tier 2 Capital security, subject to market conditions, including any competing supply.
- The Group's leverage ratio at 31 December 2016 was 5.4% on an APRA basis.
- The Group's quarterly average liquidity coverage ratio (LCR) at 31 December 2016 was 124%.

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

² Excludes NZ dairy exposures assessed as 'impaired no loss' based on security held.

Executive Commentary

“We have made a solid start to 2017 with our ongoing focus on high returning, priority customer segments continuing to deliver. Our revenue is up, asset quality is again a strength and our capital position remains sound,” said NAB Group CEO Andrew Thorburn.

“We are taking a disciplined approach to reshaping our business, balancing higher levels of investment with tight cost management, to become more efficient and to serve customers better. Our first quarter expenses were impacted by the usual 1 October salary increases as well as elevated redundancy costs. Our FTE³ levels reduced by 488 in the quarter and for this full year we remain on track to deliver more than \$200 million in productivity savings and continue to target positive ‘jaws’. We are well advanced on a number of initiatives that give us confidence about second half productivity and cost benefits.

“Our focus on delivering a great customer experience is relentless and while we have made progress, there is still work to do to achieve our ambition of turning more customers into advocates. For December 2016 our Priority Segments Net Promoter Score (NPS)^{4,5} was equal second of the major banks.

“Technology is an essential part of improving the customer experience and making it easier, simpler and more convenient for customers to do business with us. This quarter we relaunched our mobile banking app, designed based on what our customers told us they need and want. The new app makes it much quicker for customers to perform simple tasks like logging in, checking balances and paying bills, and includes innovative new functionality allowing customers to self-manage several important elements of their NAB debit and credit cards such as temporary blocks, replacing damaged cards and overseas travel.

“In December we also announced a new, five year strategic partnership with realestate.com.au which will create a seamless experience to find both the right property and the right loan to suit customers’ needs. These initiatives are examples of how we are working hard to find new and better ways to serve customers and grow our business.

“While the Australian and New Zealand economies remain resilient and continue to deliver solid growth, the operating environment has some challenges with funding costs remaining elevated and competition still intense. We remain focused on executing against our strategic priorities to ensure we can grow in a sustainable way while managing our business responsibly for all stakeholders,” Mr Thorburn said.

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³ Full time equivalent employees.

⁴ Net Promoter® and NPS® are registered trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

⁵ Priority Segments NPS is a simple average of the Net Promoter Scores of four Priority Segments: Home Owners, Investors, Small Business (\$0.1m-<\$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 attributable to owners of NAB for the full year ended 30 September 2016 is set out on pages 2 to 8 of the 2016 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 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 audited by the auditors in accordance with Australian Auditing Standards, were published in its 2016 Annual Financial Report on 14 November 2016.