

ASX ANNOUNCEMENT

Friday, 19 October 2012

National Australia Bank announces collective provision economic cycle adjustment and fourth quarter cash earnings

The Australian economy remains comparatively strong but lower global growth expectations, divergence in business conditions across sectors and low levels of consumer and business confidence have reduced the outlook for economic growth in 2013. Furthermore, in the last three months, conditions in the UK have deteriorated and economic recovery is likely to be slower than previously expected.

As a prudent response to these current economic conditions, National Australia Bank Limited (NAB) has increased the economic cycle adjustment on its collective provisions by \$250 million (\$175m post tax) as at 30 September 2012. The increase in collective provisions will be reported in cash earnings and increases the total economic cycle adjustment to \$320 million, excluding the overlay allocated to the UK commercial real estate (CRE) portfolio. This will not adversely affect the Group's capital position as capital deductions associated with the General Reserve for Credit Losses (GRCL) will fall by an offsetting amount.

Excluding the increase in the economic cycle adjustment, unaudited Group cash earnings for the September 2012 quarter were approximately \$1.4 billion, broadly in line with third quarter cash earnings. Full year 2012 cash earnings (including the increase in the economic cycle adjustment) is broadly in line with 2011 cash earnings.

Subject to finalisation and independent audit of the Group's September 2012 Full Year Results, NAB intends to pay a final dividend of 90 cents per share, fully franked, consistent with the first half. This represents a 4.7% increase in the full year dividend compared to 2011.

Executive Commentary

"Balance sheet strength remains a key priority for the Group and this increase in the economic cycle adjustment will further strengthen our provision coverage", National Australia Bank Group CEO, Cameron Clyne said today.

"The Australian economy has performed well relative to other advanced economies, although business conditions across sectors and the various states remain mixed. In October, NAB reduced its forecast for 2013 Australian GDP growth to 2.5 percent from 3.3 percent in July. Mining and related sectors have been performing strongly, but in the last few months, falling commodity prices and weaker global growth prospects, specifically in China, have reduced growth in these sectors.

"The UK economy has now posted three consecutive quarters of declining GDP and expectations for recovery in 2013 have continued to be downgraded.

"Considering the increased level of uncertainty, we feel that increasing the economic cycle adjustment on the collective provision is a prudent measure at this time" he said.

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Disclaimer

This announcement contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "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 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

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 and is not presented in accordance with Australian accounting standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the company. A definition of cash earnings, discussion of non-cash earnings items, and a full reconciliation of the 2012 full year cash earnings to statutory net profit attributable to owners of the company, will be included in the 2012 September Full Year Results dated 31 October 2012. The Group's audited financial statements, prepared in accordance with Corporations Act 2001 (Cth) and Australian Accounting Standards will also be included in the 2012 September Full Year Results dated 31 October 2012.